

THE SHUTDOWN: ECONOMIC IMPACT ON SMALL BUSINESSES

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THE SHUTDOWN: ECONOMIC IMPACT ON SMALL BUSINESSES

WEDNESDAY, FEBRUARY 6, 2019

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 11:00 a.m., in Room 2360, Rayburn House Office Building. Hon. Nydia Velázquez [chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Finkenauer, Kim, Davids, Golden, Veasey, Evans, Schneider, Delgado, Chabot, Balderson, Hern, Hagedorn, Stauber, Burchett, Spano, and Joyce.

Chairwoman VELAZQUEZ. Good morning. The Committee will come to order.

We thank everyone for joining us this morning, and I want to especially thank the witnesses for being here today.

As we are all aware, the recent government shutdown was a particularly painful experience that will leave a lasting impact on our small business economy and our workforce. For many federal workers, contractors, and small business owners, it was 35 days of missed paychecks, delayed loans, and strained budgets. Most unsettling to many of us was the sheer uncertainty of just how long this would last.

Despite the shutdown ending, many small business owners and workers are still feeling its effect. While those direct and indirect costs are being tallied, there are some things that we already know.

We know that \$3 billion in economic activity has been permanently lost, according to the latest Congressional Budget Office figures.

We also know that federal contractors and workers, many of whom live paycheck to paycheck had to take extraordinary measures to make ends meet.

We know that the shutdown delayed \$18 billion in federal discretionary spending and shuttered numerous Federal agencies, including the Small Business Administration.

Because of the shutdown, SBA was forced to suspend many of its most crucial services, including the approval of small business loans and contractor certifications.

During the shutdown, we heard one heartbreaking story after another. From small businesses who have lost customers and others waiting on SBA loans, to small contractors who are not getting paid, the impact was felt by many.

But, what we do not know is the shutdown's full cost to the small business community.

Today's hearing gives us the opportunity to answer this question. We will hear from a flourishing brewery that had to postpone the rollout of 2019 beers due to a lack of federal approval.

We will also be hearing from a federal contractor that had to take extraordinary measures to ensure her employees were supported through this difficult time.

These stories, along with many more, will give us insight into how small businesses, their employees, and local economies weathered this terrible storm.

It is my hope that we can shed light on the difficulties entrepreneurs and federal workers alike are still enduring after the shutdown, and that as lawmakers we can come together to prevent another one in the future because the consequences are far too real for our nation's job creators.

I look forward to today's hearing and thank the witnesses for being here to share their stories with us.

I now would like to yield to the Ranking Member, Mr. Chabot, for his opening statement.

Mr. CHABOT. Thank you, Madam Chairwoman.

The partial government shutdown left many small businesses in a state of uncertainty, and it is important that we address how quickly we can bring the small business economy back up to speed.

Many American small businesses utilize services from the Federal Government, and of particular interest to this Committee, they often turn to the SBA, the Small Business Administration. The SBA provides small businesses with many different types of assistance, including aid and competing for government contracts, gaining access to capital, and entrepreneurial development. Unfortunately, during this winter's partial government closure, the majority of the SBA's employees, with the exception of the Office of Disaster Assistance, were furloughed. This temporarily halted the SBA's lending programs and left many small business contractors without pay. Many small businesses around the country also saw a drop in consumer spending, especially those most frequented by government employees.

Yet, even in the most trying of times, I am always encouraged by the determination of America's entrepreneurs. Despite the dysfunction in Washington, small businesses started off 2019 strong. According to the National Federation of Independent Business (NFIB), small firms added workers, realizing the best rate gain since last July. Wages also rose in January with the percentage of business owners reporting that they increased employee compensation and it continued at 45-year record highs.

This welcomed news, however, does not mean that small businesses came out unscathed. Many small businesses' bottom lines were influenced by the government's closure, and obviously, adversely. Now that the Federal Government has reopened, many small businesses are wondering what is next.

Today, I hope we will be able to provide clarity to any small business affected by the shutdown. While government shutdowns often prompt people and politicians alike to assign blame, I hope that today we can put those differences aside and have a productive

conversation to help our nation's small businesses get back on track so they can continue to prosper, innovate, expand, and hire folks.

Thank you, Madam Chairwoman, and I yield back.

Chairwoman VELAZQUEZ. Thank you, Mr. Chabot.

The gentleman yields back. And if Committee members have an opening statement prepared we would ask that they be submitted for the record.

I would like to take a few minutes to explain the timing rules. Each witness gets 5 minutes to testify, and each member gets 5 minutes for questioning. There is a lighting system to assist you. The green light will be on when you begin and the yellow light will come on when you have 1 minute remaining. The red light will come on when you are out of time, and we ask that you stay within the timeframe to the best of your ability.

I would now like to introduce our witnesses.

Our first witness is Dr. Matthew Shapiro. Dr. Shapiro is the Lawrence Klein Collegiate Professor of Economics at the University of Michigan. He is editor of the American Economic Journal of Economic Policy. Dr. Shapiro is also the Chair of the Federal Economic Statistic Advisory Committee, the official advisory Committee of the Census Bureau, the Bureau of Labor Statistics, and the Bureau of Economic Analysis. Welcome, sir.

Our second witness is Mr. Bill Butcher. Mr. Butcher is the founder of Port City Brewing Company, an artisanal craft brewery in Alexandria, Virginia. He is a fourth generation Alexandrian and is a long-time craft beer aficionado. He watched the craft beer business evolve and become more like the fine wine business. It was this evolution that convinced him and his wife Karen to start Port City Brewing Company in Alexandria in 2011. Welcome.

Our third witness today is Ms. Heidi Gerding. Ms. Gerding is the CEO and cofounder of HeiTech Services, a woman- and service-disabled veteran owned business. HeiTech Services is a federal programs and technology solutions provider headquartered in Landover, Maryland. She is the first woman from Minnesota to graduate from the U.S. Naval Academy. Ms. Gerding's naval career spanned nearly 10 years during a time when being an academy graduate, a naval officer, and a woman, challenged established tradition. Welcome, Ms. Gerding, and thank you for your service.

I now yield to our Ranking Member, Mr. Chabot, to introduce our final witness.

Mr. CHABOT. Thank you, Madam Chairwoman.

Our final witness today is Mr. Charles T. Rowe, president and CEO of America's Small Business Development Centers, a nationwide network of 975 centers providing no cost business counseling and training to small business owners. Prior to this role, Mr. Rowe served as the associate administrator with Congressional Legislative Affairs for the SBA, the Small Business Administration, and also served on the House Small Business Committee, this Committee, as counsel for 10 years. Welcome back to the Committee, Mr. Rowe, and we thank you for testifying today.

And we thank all the witness, and Ms. Gerding, thank you for your service. Appreciate it.

Chairwoman VELAZQUEZ. Thank you, Mr. Chabot.

And now I recognize Dr. Shapiro for 5 minutes.

STATEMENTS OF MATTHEW D. SHAPIRO, LAWRENCE R. KLEIN COLLEGIATE PROFESSOR OF ECONOMICS, UNIVERSITY OF MICHIGAN - DEPARTMENT OF ECONOMICS; BILL BUTCHER, FOUNDER, PORT CITY BREWING COMPANY; HEIDI GERDING, CEO, HEITECH SERVICES, INC.; CHARLES ROWE, PRESIDENT AND CEO, AMERICA'S SMALL BUSINESS DEVELOPMENT CENTERS

STATEMENT OF MATTHEW D. SHAPIRO

Mr. SHAPIRO. Thank you for the opportunity to testify about the effects of the recent partial government shutdown.

The recent government shutdown had an immediate and direct effect on government workers and contractors who were not paid during the shutdown and businesses who therefore lost sales.

Research on the 2013 government shutdown provides concrete evidence about how government workers coped with a drop in pay and provides insights into how the direct effects of the lost pay affect the economy in general and small businesses in particular.

Many households live paycheck to paycheck. A typical government worker had about a week's worth of spending in the bank prior to the 2013 shutdown. Roughly 20 percent only had 1 day's worth of spending in the bank prior to the shutdown. Hence, many government workers needed to take multiple steps to make payments and meet expenses when they go payless.

In October 2013, government workers took a number of measures. On average, they cut overall spending by an amount equal to about half the pay shortfall. Households with a low cash buffer cut spending more sharply. Many deferred payments, including mortgage, rent, and credit card payments.

There is little evidence, however, that workers affected by the 2013 government shutdown borrowed by incurring new charges on their credit cards. Those who have little cash and substantial credit card debt appeared very reluctant to accumulate new debt in the face of the drop in income.

Because the 2013 shutdown resolved quickly and workers were paid promptly, it had little lasting effect on workers' financial conditions or on the overall economy. Workers who deferred mortgage payments or rent were able to make payments once they received retroactive pay, often within the month, so there was no discernable effect on their credit.

While the coping strategies of affected workers in the recent shutdown appear similar to that in 2013, the severity of the shutdown for affected workers led to much greater economic impacts.

Few households have sufficient cash buffers to offset a month with no pay. As the shutdown entered its fifth week last month, there was considerable risk of a sharp drop in economic activity. The out-of-pocket costs of coming to work, commuting costs or childcare expenses are significant and needed to be paid even by those government worker who were mandated to work.

The temporary expedient of skipping a payment of rent, of mortgage, of credit card, of cellphone, of utilities, of insurance, of doctors' bills, you name it, something that might have seemed at first

fairly low risk given the short duration of previous shutdowns was a looming financial disaster for many households. Disruption of Federal services, particularly air transportation, were becoming widespread.

Small businesses provide many consumer needs for discretionary purposes. Examples include restaurants and coffee shops, dry cleaners, corner grocery stores, parking lots, movie theaters, or car dealerships. When households have to make cutbacks, they focus on discretionary purchases, such as eating out, or big ticket items that can be deferred, such as a car or appliance purchase. Businesses and locations where Federal workers and contractors live or work were disproportionately affected.

Workers deferring their payments also affect business. Some of these payments—mortgage, credit cards, utility, phone bills—were paid to large institutions who presumably had a financial buffer. In contrast, late rent payments may go to small landlords who themselves owe payments to creditors and to the small businesses who service their properties. The shutdown may have placed such businesses under stress, which could have been severe had the shutdown continued into a second cycle of monthly payments.

There are other effects much harder to quantify but equally important from having the Federal Government operating partially for 5 weeks. Those doing business with the government, those awaiting regulatory approvals, those awaiting loan approvals, or just trying to get information were put on hold. They face continuing delays as the affected agencies clear the backlogs associated with the 5-week closure.

These disruptions are likely to have an accumulative and persistent effect on business output and productivity.

Perhaps a silver lining from the recent shutdown is the widespread disruptions it caused made salient the many Federal functions that provide vital services to business and the public.

Further estimates on the effect of the shutdown are available from official statistics, macroeconomic models, and the University of Michigan Consumer Sentiment Survey. I provide some details in my written testimony.

Thank you for asking me to testify before the Committee, and I look forward to your questions.

Chairwoman VELAZQUEZ. Thank you so much for being on time. I really appreciate it.

And now we will recognize Mr. Butcher for 5 minutes.

STATEMENT OF BILL BUTCHER

Mr. BUTCHER. Chairwoman Velázquez, Ranking Member Chabot and members of the Committee, thank you for asking me to testify today. I look forward to speaking on behalf of the small and independent brewers about the impact of the partial government shutdown.

My name is Bill Butcher. I am the founder of Port City Brewing Company in Alexandria, Virginia. Port City began operations in 2011 and since then we have grown to have 56 employees. We brew a variety of beers, with a number of year-round staples, seasonal beers, as well as one-offs.

In 2015, we were named Small Brewery of the Year, and our beers have won, local, national and international awards. I invite all of you and your staff to come visit Port City any time and see how our brewery is run.

Port City is committed to being a local and independent brewery. For example, we purchase close to 400,000 pounds of Virginia-grown wheat to use in our Optimal Wit, which is our best-selling beer. We are proud of our work with our supply chain partners in manufacturing, agriculture, and retail, and the jobs we have helped to create.

According to the Brewers Association, which is the trade association that represents small and independent brewers, breweries like ours contributed \$76.2 billion to the U.S. economy in 2017, and we employ more than 135,000 Americans in manufacturing and service jobs.

Running a brewery is capital and time intensive. As a small business, we rely on planning to make sure that we can operate our brewery, meet our suppliers' needs, and pay our employees. We know that unexpected issues can arise, and we do everything we can to prepare for them. Unfortunately, no one could prepare for the impact the partial government shutdown would have on breweries. Two major agencies that we rely on to run our businesses were closed during the shutdown. The Alcohol and Tobacco Tax and Trade Bureau, also known as the TTB, and the Small Business Administration (SBA). One of the TTB's main functions is to process certificate of label approvals, also known as COLAs, which breweries are required to have if we package our beer and sell it across state lines. Some states also require COLAs for all beer packaged and sold in state. Without a label approval we cannot sell our beer.

You may be surprised to hear that as an industry we get along with our regulators. Over the past few years, the TTB has taken steps to increase efficiency and turnaround time of approvals. Last year they approved more than 34,000 malt beverage labels. Prior to the shutdown, the turnaround time on malt beverage label approvals was between 6 and 30 days. As of February 1, the TTB estimated a 53 day approval time and was only processing labels that were submitted last December 13.

The backlog is not the fault of the TTB. The employees who process labels, formulas, and brewers' notices are deemed nonessential. They were prohibited from reporting to work during the shutdown.

To give you an idea of how this hurts a brewery, I will use Port City as an example. We spent months putting together a release calendar for our 2019 beers to help us determine when we will purchase ingredients and packaging supplies. On December 18, we submitted a label for a beer that we were planning to release in the spring. Until we get that approval, we cannot sell that beer and the entire supply chain is on hold.

The uncertainty is not just impacting my business. It is impacting everyone I do business with. We are just one of the thousands of businesses who are dealing with these repercussions.

We are asking that the TTB employees be declared essential. To our business and thousands of others they are just that. If you em-

power a Federal agency to give approvals for basic business activities, you need to keep them at work.

Unfortunately, time is of the essence. The upcoming deadline for funding the government has brewers throughout the country nervous about another shutdown and its long-term impacts on their business. Port City was also hurt by the furloughing of SBA staff who were working on a loan application for our new bottling line. We have been unable to lock down an interest rate, and I will likely have to pay thousands more over the life of the loan in interest. Last year, the SBA provided \$1.4 billion in loans to more than 1,900 small breweries. I can attest firsthand to the importance of those loans. We ask that the SBA employees who approve federally-backed loans also be declared essential.

Congress can also help mitigate the effects of the shutdown by making the Federal excise tax rates from the Craft Beverage Modernization and Tax Reform Act permanent. In 2018, breweries, wineries, and distilleries across the U.S. have hired new employees, increased their economic development, and made capital improvements to their businesses. Making the lower rate permanent in 2019 will allow breweries to continue doing these things and to help cover any losses that resulted from the government shutdown.

In conclusion, my company and other breweries need reliable Federal partners to continue to grow. We cannot sell our product without them. I ask that in the future you work to get TTB and SBA employees declared essential.

Thank you again for having me here, and I look forward to any questions you may have.

Chairwoman VELAZQUEZ. Thank you, Mr. Butcher.

And now Ms. Gerding is recognized for 5 minutes.

STATEMENT OF HEIDI GERDING

Ms. GERDING. So thank everyone.

I want to start first of all by thanking Ms. Velázquez and Mr. Chabot for having us here today. Also, the veterans that are serving as congressmen today, thank you very much for your service as well. Nothing is more important to me. I also serve on a board of directors for the National Veterans Small Business Coalition and very near and dear to my heart still.

I have in my testimony that you have in front of you, it was interesting. My son read it and said, Mom, this sounds more like a proposal for the government than it does testimony. So you will see exhibits and attachments and all sorts of fun things in there.

It is based into four areas—background, impact, I summarize, and then the call to action. My testimony is a very personal testimony. It does not have a lot of statistics in there about small business and things. This is an impact to my business directly.

We are HeiTech Services. This is a government contractor. The one thing I will say is that we really recognize, spent a lot of time recognizing the Federal workforce. No time whatsoever was spent recognizing the government contractors that support those agencies. Our people were not allowed to go into food banks and get food, yet they were without pay for a number of weeks. My company fortunately, after 2 weeks of no pay, for 36 employees of about 160 billable staff that I had working, so it is about 22.5 per-

cent of my billable workforce, were without pay for 2 weeks. The company asked them to take vacation, personal time, or leave without pay. Normally, we do not allow our people to take leave without pay. We ask them to expend their vacation and personal time, but due to the circumstances, knowing that a couple of our employees were getting married and had plans, needed to save their leave and things like that. We had other members that were pregnant and they knew that maternity leave was coming up. They had plans for their vacation. So they went without pay for 2 weeks. After 2 weeks my staff got together and said, you know what? I could not do this as an owner of a business. This is ridiculous. So at the third week we put our employees back on the payroll at our erosion of profits to keep those people.

When you consider the time and the effort it takes to recruit a new person to fulfill a government contract, which our costs are about \$1,100 per new person. That does not include the time to get them through a national agency clearance investigation, a NACI check, which can range from 3 to 8 weeks once we identify and get an offer letter back from an employee accepting employment. They then go through 3 to 8 weeks waiting for the government to say, yes, they can start work. If in the worst case scenario an agency takes 8 weeks to approve that person to start on the job and it comes back denied because they found something that I did not pick up in my background check that maybe they had access to FBI records or something that my background people do not have access to, the whole process starts again. So we have staff that are performing work extra because of vacancies that are currently existing on contracts.

When I talked about the impact, I labeled it into three areas—financial impact on the employees, the financial impact on the company, and then the emotional toll it took on both sides which are, I mean, they are just unbearable to even think about. Probably the biggest thing was the employees that were not affected, were still working for the FDA, were concerned that the FDA might run out of money and would they be furloughed? What would happen then?

The only relief came when they heard that the company put, after 3 weeks, everybody back on the payroll. It did provide some relief, but there was a lot of anxiety associated with that. When people are worried about things, they do not perform at their top performance level.

Our company processes paper and electronic forms for the Federal Government. Our work is considered mission critical. At the Food and Drug Administration, we are processing medical device applications for approval. We are also processing the adverse events that come from the result of a malfunction, serious injury, or a death of a malfunction. Those are mission-critical services, and they are usually fee-based. So those employees continued to work.

One employee gave me an acknowledgement that we take a lot from importers overseas calling the FDA and asking us questions about registering things. It was an embarrassment he said to have them have to explain to foreign countries or foreign companies that our country was shut down in that particular area and could not process something. It was unfathomable to another country that this country could not do something.

So I want to summarize things, although please take time to read my testimony. I personally wrote this testimony because it was from the heart. I saw what my employees went through. I know what I would have gone through. But I wrapped it up with three calls to action.

The first one is, please, please fund these last seven agencies and departments. Do not have my employees have to go through this again next week.

The next thing is to treat—do not forget about the Government contractors. There are so many government contractors that outnumber Federal employees. Do not forget about us. The analogy that I use in there is when the Vietnam War era, people came back from the war, they were not treated respectfully. And as a result of that, today our veterans are coming back and being respected. Do not make this analogous to that situation. Have us be those returning war veterans and treat us with the same amount of respect.

And finally, something that I just became aware of myself was the debt ceiling that is looming on March 2. Please do not lose sight of that. The economic impact to my business and me personally as a mother is unconscionable. So please do not forget about the debt ceiling and do a bipartisan piece of legislation and vote for extraordinary measures to get that through.

Thank you.

Chairwoman VELÁZQUEZ. Thank you, Ms. Gerding.

And now I recognize Mr. Rowe for 5 minutes.

STATEMENT OF CHARLES ROWE

Mr. ROWE. Thank you, Chairwoman Velázquez, Ranking Member Chabot, members of the Committee.

I am president of America's SBDC, the association that represents the nationwide small business development center system.

For 40 years, SBDCs have been assisting small business owners and aspiring entrepreneurs.

So, what was the effect of the shutdown? Well, luckily, SBDCs were able to carry on. Our host institutions have the flexibility to support us for a short period.

Some networks were forced to suspend advisors and reduce hours, but it was really our clients who bore the brunt of the shutdown's impact. Our Federal contracting clients had to suspend work. SBDCs started fielding calls and questions from them right away.

Small contractors are often the most affected by a shutdown. Procedures go into place, notices go out, and sometimes there are more questions than answers. A large contractor can shift employees, sort out disruptions, absorb some overhead, but for a small business, the owner and the employees are hanging out there together and key employees can actually be lost to a better opportunity.

There were 41,000 small business contractors affected. One SBDC client supporting the FAA employs 75 people and 90 percent of those employees were furloughed. Their contract is back now. They weathered this shutdown. But they are uncertain about what will happen if there is another one.

And when a small business contractor gets furloughed, there is no recouping lost revenue.

And it is not just the existing contracts. An SBDC client was awaiting 8(a) certification. Without that and letters of support from the local Federal lab which was closed, they could not go to an Air Force pitch day, so time was lost and opportunities that will never come back.

SBDCs also have thousands of clients seeking financing. And when SBA shuts down, 7(a) and 504 lending stops.

A Lynchburg, Virginia borrower was awaiting SBA approval so he could move to a permanent location. He had given up his long-term lease expecting that approval. Now he is waiting, worried that his landlord might evict him if he finds a long-term lessee.

In Twin Falls, Idaho, the SBDC works closely with a local 504 lender. Eleven million dollars of financing was halted. In Twin Falls, that is a lot of money. Another \$800,000 there was stopped when a lender funding a remodel could not get a simple subordination.

Until SBA reopened, clients could not do simple things like that. Or get approval for a life insurance payout to a widow whose spouse was her business partner. It happened all over. A childcare center in North Carolina waiting for a decision from SBA may cost the business their building. In Illinois, an 80-year-old design and engineering company may close because their loan was not funded by the closing date of December 27.

SBDCs have a partnership with the International Franchise Association. They told us that roughly \$12 million a day in SBA-backed loans were being delayed for franchises. Now, SBA is working to clear the backlog, but in the meantime, small businesses are trying to figure out bridge loans and alternatives. Hopefully, they will come to us to work it out. Otherwise, desperation can lead to poor business choices, something I know the Chairwoman has worked on and we really support her bill on that.

As I mentioned above, 8(a) certifications were suspended. So were mentor-protégé agreements. So a small business trying to get approved to team with a large contractor is put on hold. And if it is a defense contractor, they are still working but the small business cannot.

And business stopped at the Department of Commerce. Export.gov was shut down. SBDC clients are okay because we have certified export counselors, but any small business looking for help on export regulations on their own was stuck.

SBDCs are providing all the help we can to keep our clients in the black and help any new small business clients. The DC SBDC is co-sponsoring an event with Intuit bringing in advisors to help contractors and hosting a meet and greet for D.C. restaurants that felt the pinch, too. It is, more than anything, a morale boost because many of them are wondering what will happen come February 15th. Our mission is to help them and prepare them for the future. Small business hates uncertainty, and that is exactly what a shutdown is. They are not bad business people. They did not make mistakes. They just got caught up in the shutdown.

Thank you. I look forward to answering any questions.

Chairwoman VELÁZQUEZ. Let me thank all the witnesses for sharing your stories. You know, sometimes here in Washington we lose perspective into the incredible long-lasting impact that a government shutdown will have, not only on federal workers but on those who really keep this economy growing.

I recognize myself for 5 minutes, and I will start by asking Dr. Shapiro the first question.

The CBO projects a reduced level of GDP for this first quarter, nearly \$8 billion lower than expected. Even the Wall Street Journal has also reported small businesses have become more cautious in their expenditures. What could another prolonged shutdown possibly mean for the economy, consumer confidence, workers, and spending?

Mr. SHAPIRO. Thank you very much.

As the last witness said, uncertainty makes planning very difficult. That is true for both businesses and households. So even the threat of a shutdown is presumably slowing down activity this month as workers try to build up cash balances and businesses are uncertain whether they should hire or buy a piece of equipment. So the risk of a further shutdown is likely having effects now. Resolving the uncertainty would be very important.

At the University of Michigan, we have a Consumer Sentiment Survey, which asks random sample of households across the country—how is the economy going to do? The index of consumer sentiment fell 7 percent in January, a very significant drop. A number of respondents mentioned the shutdown. These were folks who were not necessarily directly affected, but were concerned about its effect on the economy overall.

I also find the CBO estimates highly credible, but they are based on previous shutdowns where the resolution was fairly quick and the uncertainty was rapidly resolved. If the impasse over funding the government drags on, I would expect the CBO might have to update its estimates and that they would show a bigger effect on GDP.

Chairwoman VELÁZQUEZ. And if this sharp decline in consumer and business confidence or sentiment were to continue, could this lead to an economic slowdown this year?

Mr. SHAPIRO. That is potentially the case. The part of the government that is directly affected is small enough that it alone would not lead to a recession. But I think there is a concern with overall confidence, that the government is not functioning, and that ordinary decisions are not being made would depress confidence overall and have very dramatic spillovers. Recessions are hard to predict. The economy is quite resilient, but it is possible that a further shutdown could trigger a recession.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Butcher, how much of a delay would you say this unexpected interruption has cost you in time and money? I know that you put some planning into the 2019 beer rollout, so if there is any way for you to quantify that.

Mr. BUTCHER. Yeah. We spent the last four months of 2018 planning for 2019 and introducing new beers to the market. The craft beer business, growth is driven by innovation. By releasing new beers. Craft beer drinkers are always looking for something

new. Our restaurant customers are always looking for something new. And when we submit the label it should take about 14 days to get approved. And so the labels that we have caught up in the backlog at the TTB are beers that we plan on releasing next month, as well as the month following. So March and April and May. And what that does for us is it just, if we cannot sell our new beers in the market, those beers just do not get purchased. We cannot make that up. People going out to eat or buying beer in a store, they are going to buy something else. And that effectively slows down our business.

Also, when we look at our suppliers, we buy a significant amount of wheat from a farm in Heathsville, Virginia, and we contract that wheat. And if we are not going to buy it when we say we were going to buy it, it slows their small business down as well and then they need to figure out what they are going to do with that excess wheat. Do they send it to the maltster, or do they have to sell it as animal feed, or do they just not get to sell that grain? So it really affects us up the supply stream as well as down the supply stream with restaurants that are slowed as well.

Chairwoman VELAZQUEZ. Thank you.

Ms. Gerding, you said that, small contractors and their workers are the silent victims of the shutdown. It seems their plight is a difficult one to get hard numbers on as we are gathering anecdotal stories from the press and those who reach out to us. So I would really like to hear your thoughts on whether you are worried about the potential for negative past performance ratings caused by the shutdown and how that could impede your ability to win future contracts.

Ms. GERDING. So the answer to that question is the potential is certainly there. I think today all of our customers completely understand the shutdown and are giving us a pass, if you will, for deliverables and timeliness and things that they measure our performance on. My concern is a month or two from now that will have been forgotten about, the shutdown, and they will want to know why we were not able to recover, why we were not able to catch up. So today I am okay, but I am worried about past performance down the pike. I am still gathering information from my project managers in the field as to any backlogs that may have resulted and how that may impact our performance in the future. But you know, past performance is key to winning contracts, and if it is marred in any way it will hinder my ability to grow the business.

Chairwoman VELÁZQUEZ. Thank you.

My time has now expired. The Ranking Member, Mr. Chabot, is now recognized for 5 minutes.

Mr. CHABOT. Thank you, Madam Chair.

And before I ask questions, just kind of a point here. I think all the witnesses have indicated why we want to avoid another shutdown occurring in the very near future because these things impact the economy. They impact real people in many ways, especially as you mentioned, Ms. Gerding. And it ought to happen in Congress. The President ought not to have to take emergency action of any sort. So it seems to me that there is somewhere between \$5.7 billion for border security and zero that we in good faith when we

deal with trillions of dollars every year we ought to be able to find some area there. We have not yet but hopefully our leadership, and we in conjunction with our leadership, will do that.

Mr. Rowe, let me begin with you. What specific forms of support can SBDCs that you are intimately involved in and knowledgeable about, obviously, and other entrepreneurial development centers offer to small businesses during times of uncertainty such as a government shutdown?

Mr. ROWE. It really depends on the business, Mr. Chabot. If they are a Federal contractor, we can offer them some advice. We operate 29 of the 94 PTACs, Procurement Technical Assistance Centers. And we can offer them some advice on how to handle the loss of revenue and try and deal with it as Ms. Gerding did. But honestly, we cannot really tell them anything about what is going to happen in terms of the government coming back on.

Now, with borrowers, the 7(a) and 504 lenders, they are stuck. They cannot get approvals from SBA, and very often, the very reason we have gone with our clients through a 7(a) loan process or a 504 loan process is because they have exhausted the other options. So then we are trying to help them find bridge or alternative financing. Very often there is some limited ability to do that. Some of the folks in the 504 and 7(a) community have been really great about stepping up and finding ways to help the clients, but that is a limited resource.

Mr. CHABOT. Yes. Yes.

Let me move to Ms. Gerding. Ms. Gerding, I think you very poignantly highlighted one of the most significant items that I think oftentimes got ignored in the coverage of the shutdown, and that is it was not just government employees. You know, you would sometimes hear cavalier statements about, oh, well, they are off for 3 weeks or 2 weeks and it is an unpaid vacation at this point but they are going to get paid and that kind of thing. But the government contractors, those employed by private entities, they oftentimes are going to get nothing back. And literally were receiving nothing. And you talked about that.

What would you like to comment about that and how it really affected real people that you knew of?

Ms. GERDING. I think that the back pay situation is something that Congress should consider reimbursing those contractors. All four of my contracts that were affected out of the 20 were firm fixed price contracts. Technically, I should be reimbursed at the end of the month for the work that was done or not done because I am based on a firm fixed price. However, the acquisition workforce is new and many of the people do not understand the regulations. And so there has been a lot of pushback in the past that if I have a vacancy or if there is another presidential mandate because a former president died and there is a day that is off in this particular town, that they are not going to reimburse us for those days because we did not work. And so there has been a lot of education that has been tried to go back and forth with the acquisition officers.

SAIC, I know, was reporting that for every week they were off they were losing something like \$10 million for every week. Certainly, we are not at that size but I think that extrapolating our

information to what they are experiencing, it is a ripple effect across government contracting.

Mr. CHABOT. If I could stop there because I have only got less than or about a minute.

Ms. GERDING. Can I just say one quick thing?

Mr. CHABOT. Real quick.

Ms. GERDING. Just recognize them. Just acknowledge that we exist. I think that will go so far.

Mr. CHABOT. Thank you very much.

Mr. Butcher, I have only got a short time here.

We passed the Tax Cuts and Jobs Act a while back and a lot of small businesses, individuals, a lot of folks benefitted from that. Could you comment briefly on how your company has used the savings in that either to reinvest or for your employees or what you have done with it?

Mr. BUTCHER. Yes. The savings and when the excise tax was cut last year, we have used that savings to buy new tanks for our brewery. We have hired more people at our brewery. Salespeople out in the field. And we have used that money to continue that savings, to continue to grow our business. We also have installed a brand new bottling line that would not have been possible without the excise tax being cut.

Mr. CHABOT. Thank you very much.

My time is expired, Madam Chair.

Chairwoman VELAZQUEZ. The gentleman's time has expired and the gentleman yielded back.

The gentlelady from Iowa, Ms. Abby Finkenauer, who is the Chair of the Subcommittee on Rural Development, Agricultural Trade, and Entrepreneurship is now recognized for 5 minutes.

Ms. FINKENAUER. Thank you, Madam Chair.

I just want to thank all of you today for being here and hearing from you. You know, I am one of the freshmen that got sworn in in the middle of the shutdown, and Ms. Gerding and Mr. Butcher, your testimony today underscores what I was hearing back in my district and also across the country, that our working families and our small businesses should never be used as bargaining chips when it comes to policy decisions. And Mr. Shapiro, you underscored that not only is that bad for our values, it is also bad for our economy. And I am just, again, very grateful to have you all here today.

Mr. Rowe, I really appreciate your testimony. And one of the things you highlighted was small businesses, and for me, especially our farmers, hate uncertainty. And so this question I am hoping you can help me with here a bit. You know, this shutdown has had serious impact on Iowa's workers and our farmers across the board. In my district we heard from small businesses that could not afford to have their products inspected and approved for sale, and from farmers who missed out on key data and loan deadlines. This shutdown hurt Iowa's families and our farmers, which are quite frankly the lifeblood of our economy in rural America. And on top of that, our farmers and workers are getting hit hard every single day from this trade war.

In Iowa, nearly half of our employees work at small businesses, which are 99 percent of our businesses. From your different per-

spectives, and I know that you all have many of them, but Mr. Rowe, again, I hope you can help me with this one, what could we do to help minimize the impact to our farmers, small businesses, and their employees, in the case of another shutdown, which I hope we do not see? Should we be looking at ideas on regulatory relief? Waiving payment deadlines? Or would a new short-term loan program make sense to minimize disruptions? Do you have any ideas of what we could be doing in the future here? Because quite frankly, we should never be put in this position again, but I want to make sure that our small businesses and our farmers are taken care of.

Mr. ROWE. Thank you, Ms. Finkenauer.

Well, the easiest thing would be to just come to agreement and not have a shutdown. But honestly, we do deal with a lot of value-added agriculture, rural businesses.

While USDA inspections are considered mandatory, there is a bit of a gap sometimes. And I have heard this actually from one of our clients in Texas, that there are USDA inspectors who do not have a company car so they cannot get around to do the inspections unless they are spending their own money on gas and using their own car. I think one of the things USDA could look at is making sure that their inspection force is up and ready for everybody who is involved. I think waiving the payments, if you do not have someone to make a payment to, it should essentially be waived. I do not understand how that system works, I admit. As far as loans go, USDA's B&I loan program was shut down just like 504 and 7(a) at SBA. It is the same problem there.

Chairwoman VELAZQUEZ. The gentlelady yields back.

And now we recognize Representative Troy Balderson, Ranking Member of the Subcommittee on Innovation and Workforce Development for 5 minutes.

Mr. BALDERSON. Thank you, Madam Chair. And I would like to say a few opening statements as the Ranking Member also did just to bring up a couple points.

It is important that we carefully consider the impacts of the Federal Government's actions, or inactions, have on the average American. Unfortunately, even a partial shutdown, like the one we just experienced, can have a detrimental impact on Ohioans and their small business.

I have another solution. I have introduced a piece of legislation called End the Government Shutdowns Act, which will prevent small businesses from ever suffering again due to appropriations impasse. I thank the Ranking Member for his co-sponsorship and support on this important piece of legislation.

Today I plan to listen to these folks at the witness table who have so graciously volunteered their time so I may learn from your experiences. I hope my colleagues on both sides of this dais will join me in finding solutions for small businesses, the heart of our economy. And I invite my colleagues to co-sponsor the End Government Shutdowns Act.

My first question is directed to Mr. Rowe. Do you believe the continued operation of programs such as the 7(a), 504, and microloan programs is critical?

Mr. ROWE. Yes, sir, I do. The whole point to the 7(a) and 504 programs, and I worked as Committee counsel, as Mr. Chabot pointed out, the whole point to these programs is to provide assistance to solid small businesses that have not been able to access the financing they need in the private sector.

Mr. BALDERSON. Thank you.

Question for Ms. Gerding. I appreciate you sharing your insight on the difference between the treatment of Federal contractors and Federal employees. I had that situation in my district and I, myself, said the same thing. There are other folks out there that are being affected by this that the conversation is not happening with. Could you elaborate on how a partial lapse in appropriations impacts affect the contractors differently?

Ms. GERDING. The first point I will make is the recognition. Just the fact that we are not even being recognized at the table, I think a lot of our employees feel not valued and that their work is not important. As I hear the other speakers here testify about not having gas money and things like that my head goes to are these government contractors, which leads to a whole different discussion on how contracts are being bid and won on low cost, technically acceptable. So maybe whoever bid this contract did not put that in there to save money and so, but the public does not know that they are government contractors maybe performing. So it is a whole another discussion.

But I think the other thing is the indirect costs that are associated with this. Many of my customers are uneducated in how government contracting is bid. And they do not recognize the fact that when I pay somebody \$50,000 an year, they think that I should charge them \$50,000 an year. They do not consider the overhead, the indirect expenses associated with running the business. So oftentimes I am having to educate my customers about that whole process which is maddening sometimes because they think if I am charging \$75 an hour to the government but I am only paying the employee \$50 an hour that \$25 is profit going in my pocket when, in fact, it is not. It is paying for health insurance. It is paying for all the other insurances and fringe that I am covering. I am paying for the other staff that is supporting the company, the payroll people, the CFO, the chief operating officer, other things just to keep the business running. So I think there is a big disconnect right there is that the government contractors, it impacts more than just the employee. It affects those that are indirectly supporting the company as well.

Mr. BALDERSON. I agree. Thank you for your answer.

Dr. Shapiro, would you agree that preventing Government shut-downs from occurring all together would provide more certainty for small businesses and the American economy?

Mr. SHAPIRO. Yes, I would agree with that.

Mr. BALDERSON. Thank you. I yield back the rest of my time, Madam Chair.

Chairwoman VELÁZQUEZ. The gentleman yields back and now we will recognize the gentlelady from Kansas, Ms. Davids, for 5 minutes.

Ms. DAVIDS. Thank you, Madam Chair.

So Ms. Gerding, I am going to start with you because in Kansas, like in a lot of places, there are a lot of Federal employees, but also a lot of Federal contractors, specifically in my district. In fact, in Overland Park there are a lot of government contractors and all over my district. And yesterday I spoke with the owner of Veracity, also a woman-owned business. And the similarities between what I am hearing from you today and what I heard from her yesterday are stark and highlight that, although these are anecdotal, that it is across the board we are seeing similar outcomes.

In January alone, yesterday, she told me that she lost \$135,000 in her business, and continued to pay employees, although she was not sure, the uncertainty that we have heard about, was not sure when her contracts would pick back up.

Which leads me to a question about retention, employee retention, the concern about being able to attract high-skilled, quality employees, both as Federal civil service but also in these very important contracting companies. Can you tell me a bit about your concern? What is your outlook for not just attracting but also retaining the people who are in your company now?

Ms. GERDING. So thank you for acknowledging Overland Park. We actually supported the National Benefits Center out there for many, many years in Overland Park and Lee's Summit, Missouri. In fact, I have staff still emailing me and texting me regularly asking me to bid on the contract and please come back to work. So you may see me again.

In response to your question, retention was a problem during this shutdown. I had one employee resign as a result of the fact that he was new to government contracting and just thought it was too risky for his family.

I will say that because I am fortunate and come from the Washington, D.C., area, it is not as big a concern. The one thing that government contract is, is it will not make you rich but you are assured of getting paid, whereas other commercial businesses do not have that same benefit.

So in terms of retention, I think that HeiTech Services won a lot of brownie points, if you will, with the fact that we put people back on the payroll. Another shutdown, I am not sure that I will be able to do that. In fact, the first thing I thought was when some of my employees said, well, you put those people back on the payroll so I was not concerned, I thought, yeah, but I do not know that I could support 160 people on the payroll for a long period of time. I did not tell them that but that is what I thought. So I am not sure it has a big impact. I think that Federal contracting is still a very secure place to be.

Ms. DAVIDS. I appreciate that. And then just a quick follow up, or it is not a follow up directly to that question but something that you mentioned earlier which is education of the customers that you are servicing in the procurement process and what specifics are in and the terms of the contracts that you are filling.

Can you talk a little bit more about that? When you talk about the customers, who exactly in the negotiation of that are you talking about?

Ms. GERDING. So it is everywhere from the contracting officer's representative, the technical person in the Federal agency that we

are actually doing the work for, all the way through the acquisition officer, the contracting officer. It just varies as to the level of experience and support. So you never know when you are talking, you know, you are talking to your contracting officer's representative on the technical side about the way things should be done. They call the contracting officer and we are sure that the contracting officer is going to support us by saying it is a fixed price contract, pay them. Instead they say, oh, no, no, no. You had vacancies on the contract. And we were like, oh, my gosh. So I am going to my attorney. I am incurring a lot of out-of-pocket expenses to try to figure out how to get back there without ruining my reputation with the customer or the contracting officer because I do not want to be seen as a difficult customer. So it is just, I think, time and education.

Ms. DAVIDS. I am low on time so I am not sure if you can give me a yes or a no here but what I feel like I am hearing is that even in our procurement process there is a lot of education that needs to be done on the Federal civil service side around contracts like yours and probably others?

Ms. GERDING. Yes.

Ms. DAVIDS. Okay. Thank you.

I yield back the remainder of my time.

Chairwoman VELAZQUEZ. The gentlelady yields back.

And the gentleman, Mr. Kevin Hern, Ranking Member of the Subcommittee on Economic Growth, Tax, and Capital Access, is recognized for 5 minutes. From Oklahoma.

Mr. HERN. Thank you, Madam Chairwoman.

In true bipartisan fashion, I would truly appreciate you removing the President's name from the original title of the hearing today.

As we all know, this, in true government fashion, we are talking about government shutdowns that have been occurring regularly for almost 40 years now. So today we are probably not going to solve the problem, but I think it really begs to understand why we have them.

As a business person, as a person that has been in small business for 34 years, has been signing his paycheck on both sides for over 25 years, I certainly would be the first to acknowledge that anything that disrupts the normal process of competing with each other as opposed to competing with the Federal Government's regulations and overburdensome taxation, it is a problem that when we have something as extraordinary as a shutdown, regardless of whose name was on the front of it or why it was caused, quite frankly, many people, and one of the reasons I am here is because we seem to cannot do our job up here of just passing something as simple as 12 appropriation bills, we would not be talking about shutdowns again.

So we could introduce all kinds of new legislation. We should just introduce a new legislation which I have signed onto which is No Budget, No Recess. You do not have to have a constitutional amendment. You do not go home until it gets passed. We will not even have these hearings anymore because we will all be getting paid in regular order and this will be a whole different place to live and breathe in. I know my business friends certainly would appreciate that, and Dr. Shapiro, there would probably be less to talk about in your world. But I would really appreciate that.

Mr. Rowe, as someone who is highly involved in America's small businesses and you see a lot of different industries, I have a question for you. If you remember, since we are talking about what causes shutdowns, and more importantly, what causes the enthusiasm in small businesses or not, could you describe based on your thousands of businesses that you are touching, what drove the enthusiasm so highly, so quickly, in November 2016? About a 14-point jump enthusiasm on November of 2016 according to NFIB.

Mr. ROWE. The Small Business Community was very enthused by the passage of the Tax Act. They thought things were going very well. As a result, we saw increased economic activity and involvement. I think the biggest problem we have now is that we had all that increased activity and a fair amount of it flows through the SBA's loan program.

Mr. HERN. So, Mr. Rowe, if I may, back in 2016, not 2018.

Mr. ROWE. Oh, 2016.

Mr. HERN. Yeah. It happened to be an election year.

Mr. ROWE. Yes, I know. What enthuses people? Mr. Hern, I am going to be honest and tell you that I think people are always seeking change in an election year and I think that is what they wanted and that is what they got. I think they were a little bit frustrated, particularly in the small business community with what they considered to be a low-growth economy.

Mr. HERN. If I may, just to fast forward that, with the change in 2018 November election, there was a decline in small business enthusiasm, almost coinciding with an election, coincidentally or not. But as we go forward here I just want to ask you, I really appreciate certainly the two business people at the table talking about what we should do because I think that is what business people do. They look at the problem and they try to find an agreement or a solution how to move forward. And you are asking of us as members of Congress to stop this madness of repeating history time and time again. It is insanity. The two gentlemen on each end are describing what happens when you have these disruptions. And so the combination of all the testimony here is very important for us all to listen to and for us to take to back to our members because if we truly care about 70 percent of the job creation in America, we truly care about big businesses growth in the future because our small businesses are incubators for large businesses in the future, you would think that would be the most important thing in the world to drive this economy. This economy is found on job creation and business. You would think that we would take that back and we would vote accordingly to drive that economic engine. But you see quite the difference in that. And we were talking again imminent shutdown over other things that drive policy. So we have got to determine what is the most important thing that we are all going to work on in this small business and take back up to our respective leaderships to move forward.

I will remind us all, the greatest social program in the world is a job. And there are two job creators up there. I am one as well. So I appreciate you all's testimony and I yield back the balance of my time.

Chairwoman VELÁZQUEZ. The gentleman's time has expired.

And now I recognize Mr. Jared Golden. He is the Chairman of the Subcommittee on Contracting and Infrastructure.

Mr. GOLDEN. Thank you, Madam Chair.

The first thing I want to say is to Ms. Gerding. You know, coming out of the Marines and seeing your background in the Navy, I am not surprised to hear that just a couple weeks into this you and the people that help you run your business instinctually knew that you had to do something to do to help take care of your workers so you put them back on the payroll. One of the things that this shutdown I think impressed upon me in my first few weeks in Congress is that when we fail to provide that kind of leadership in Congress, that is one of the embarrassing things about it is people like you have to step up and fill that leadership gap and I think that is also one of the positives. We see that we have got people like you out there running businesses and taking care of workers. So thank you very much for that.

In looking here at your testimony, there is a bullet here about financial impact to business. And you noted here that you are operating off a budget that is predicated on an expected budget. And you noted a deficit in indirect expenses of about \$100,000. My folks back home run a small business. It is not as big as yours. It is very small. One hundred thousand dollars would be a lot. I do not know what the impact is to you, but I am wondering if you could just tell us a few things relevant to steps you might have to take to try and get your budget back on track.

Ms. GERDING. So we have already taken a look at that. The budget last year when we developed 2019's budget was based on a \$16.5 million revenue stream. From that what we did was we had to reduce that to \$16.25 million, about a quarter of a million dollars came out of our budget because the revenue is going to be lost from the company, which means we had to go back in to all of our indirect expenses and realize where we were going to reduce costs. I still am assessing the impact right now because we did have to go into our line of credit to use, especially at the beginning of the year when we are paying full amounts of FUTA and SUTA and all those other things that hit you at the beginning of the year. Plus, you have short months. You know, 28 days in February, et cetera. And then there is a number of Federal holidays that hit at the beginning of the year. So we will have to sharpen our pencils and reduce our costs throughout the company to make sure that we come in on budget, which we will do, but it does have an impact on everyone across the board.

Mr. GOLDEN. Thank you. So there are some short-term steps that you are going to have to take on a longer term.

Ms. GERDING. We are already talking. Yes.

Mr. GOLDEN. I talked to a constituent back home who runs a business and contracts with the Federal Government. They noted that during the shutdown, GSA was not posting any solicitations for bids. I do not know if that is something that you also had to deal with during this, but can you talk a little bit about how that might impact either yourself or a business like the one I am noting back home in Maine in terms of their long-term confidence and business planning to deal with the fact that there is no solicitation of work for them to be competing for during a shutdown?

Ms. GERDING. So that gets in, I mean, there is an impact based on the shutdown. There are bigger impacts that impact the small business community that are successful and grow outside their size standards and now all of a sudden they are playing with the big guys but they are only, let us say, a \$40 million company and now all of a sudden I am having to compete with Lockheed Martin. With the government going to category management, if you do not have one of those contract vehicles, you are not going to play. You will always be a subcontractor to a large contractor. And then you are at their mercy to play whatever game they want to play. When I get a teaming agreement I am looking at it saying, this is unfair. I want that if you get the option here, I get the option here. And they said, look, either take it or I will find another company that wants to do the work. So I am forced to kind of negotiate like that.

In terms of the shutdown itself, we were not adversely affected by the proposal process. What I was anecdotally told from another company was that the Acquisition Office was needing approval from another government agency. So it was a Department of Defense agency that needed approval from another Federal agency that was closed that shut the acquisition process down because that agency was not open. So that is going to slow roll that procurement and move it to the right.

Mr. GOLDEN. All right. Thank you.

Well, one last question shifting gears. Dr. Shapiro, I am just looking here at some data. This is Vistage Worldwide who did some work with the Wall Street Journal. They were making note that in 2018, economic confidence among smaller firms, actually downward, 14 percent of firms expected the economy to improve in 2019, but 36 percent expected it to get worse. Could you just talk a little bit about how something like a shutdown in the month of January might add to that kind of downward confidence among small firms in particular?

Mr. SHAPIRO. I do not think that we have direct evidence that that survey was affected by the confidence. I think for the reasons stated by the witnesses at this hearing, it is very hard for businesses to plan. It is very hard for them to know whether to hire a worker. It is very hard to know whether to develop a new brew if the government approvals business depends on are delayed. So I can well imagine that many businesses' confidence is affected.

Mr. GOLDEN. Thank you.

Chairwoman VELAZQUEZ. The gentleman yields back.

I now recognize Mr. Hagedorn from Minnesota for 5 minutes.

Mr. HAGEDORN. Madam Chair, thank you for the time. I appreciate the leadership that you and the Ranking Member have shown on this and all your past work on this Committee.

It is a pleasure to be here helping our Main Street businesses. Small businesses are certainly very important to the 1st District of Minnesota and all the people across the country, the small businesses, the job-creating backbone of our economy. And I appreciate the testimony of the folks here.

I would like to say to Ms. Gerding, I appreciate you coming up. It was nice to meet you before the hearing. As a fellow Minnesotan, welcome. And I think that Congressman Oberstar, when he nominated you to the Naval Academy, knew what he was doing, and

congratulations on that. And thank you for your service to our country.

I have heard a lot from the witnesses about certainty, and obviously, when the Federal Government shuts down that is not a good thing for you. That is not a good thing for anyone. And we can debate on why that happens and so forth and what should happen in the future. That is, I suppose, the ultimate thing that in your line of work that we could do to create certainty is to make sure we do not shut down anymore. I get that.

But when you look at the Federal Government and its impact on small business and our economy, there are lots of ways that the government can throw a wrench in things and have a lot of uncertainty across the board. I think what my friend, Mr. Hern was getting at is before the 2016 election there might have been a little bit of uncertainty on regulatory policy, whether or not we were going to have something like Waters of the United States or the Clean Power Plant, things like that would drive businesses to maybe look at things different and take a step back as to whether or not they were going to move forward. Taxation, obviously. Energy policy. Labor. Trade. You can go on down the line.

I am drawn to the brewer in the bunch, so I will say to Mr. Butcher, how does certainty play and uncertainty? And what are you looking for from the Federal Government, the Executive and Legislative Branch moving forward, in general?

Mr. BUTCHER. Well, thank you, Mr. Hagedorn.

As far as certainty goes, in founding a small business and running a small business, you start up in an environment of uncertainty. You do not know exactly how things are going to go but you have to go with your gut and you have to do the best job you can every single day.

As far as the government giving us more of a level of certainty, we are in a highly-regulated industry and I accepted that when we decided to get into the brewing industry. We are regulated by the TTB at the Federal level. We are regulated by the FDA at the Federal level as well. And so we accept that. But in order for us to function and introduce our new beers and keep our innovation pipeline alive, we need those services to be available. Unfortunately, the only aspect of the TTB that was operating was they were taking our checks and cashing our checks. But as far as certainty goes, by having the government running, by enabling the TTB to allow us to perform our basic business function at the very least would provide a better level of certainty.

Mr. HAGEDORN. Sure. And I would say obviously we want your businesses to expand and you to be successful, but we want other enterprises to be created and people have ideas right now that they are thinking about and it is important for the government to have consistent policies so they can go to the community banks and others to get the loans needed in order to be able to show them the case that, yeah, this is what they are going to spend and these are going to be the costs for healthcare and everything else. And down the road this is how they are going to pay it back and expand their businesses and be successful.

So with that I yield back. Thank you.

Chairwoman VELAZQUEZ. The gentleman yields back.

Now we recognize Mr. Marc Veasey from Texas, for 5 minutes.
Mr. VEASEY. Thank you, Madam Chair.

You know, there has been a lot of talk about how much money the Federal Government lost and our economy lost because of the prolonged shutdown. I believe the U.S. Chamber of Commerce, Dr. Shapiro estimated that the cost of the shutdown of money that we will never get back ended up being about \$2.3 billion. Does that seem right to you?

Mr. SHAPIRO. That is a reasonable ballpark estimate. The Congressional Budget Office has estimated the effect on GDP for the year about one-tenth of 1 percent of GDP. GDP is a big number so it does add up.

Mr. VEASEY. One of the things the President talked about last night during the State of the Union was the economy. He touted the economy. He talked about job numbers. Talked about how we are experiencing growth. And I wanted to ask you, you know, we are about to reach another government shutdown here soon if a deal is not reached, February 15th. In your opinion, if we do not reach a long-term deal, what would an additional prolonged government shutdown mean for not just Q1 but for overall economic activity this year?

Mr. SHAPIRO. I think it would useful to dial back to how it felt the week the shutdown was resolved. Not only were businesses and individuals directly affected cutting back; it looked like the Air Transport System was getting tenuous, which is very bad for a whole range of businesses. Also, the shutdown revealed a myriad of details of how the Federal Government makes the economy run better. Granted, regulation is a burden, but also there are benefits to regulation. There is a reason why breweries have to take their labels to the government. The public expects that what is on the label will be in the bottle of beer, and similarly for many other food products. We have inspectors who verify safety and purity of food and beverages. There is a real partnership between business and the government. If that partnership appears to be breaking down, there is substantial risk of indirect effects that could be very significant for the economy.

Mr. VEASEY. Thank you very much.

And I wanted to ask Ms. Gerding, you know, we have heard a lot about small contractors, and I know in the district that I represent that there are just so many hurdles to people that are trying to start up a small business, people that own small businesses, and delayed pay, working on projects and not being paid in a prompt manner and how it can be a lot harder to find that capital to continue operating your business without that flow of income coming in, and I wanted to hear how your company managed through the shutdown if they are not receiving payments. I would be very curious about how you were able to work through that.

Ms. GERDING. So we have not seen the impact yet because the shutdown occurred in December and January. So I do have lines of credit in place. I will say to your initial part of your question that starting a business is not for the faint of heart. And I have a lot of people, because I do a lot of public speaking, that come up to me afterwards and say I want to be just like you. How can I get my business going? What is your advice? And I said, are you cur-

rently working now? And their response is yes. I said stop working. Well, how will I take care of myself? I said that is what you are going to experience as a business owner. I said if you do not have enough money put away for 12 months to live on you should not start a business because as long as you are working you are not focusing on growing your business. You cannot do both things, especially in Federal contracting. Your customers are there during the day, not in the evening. And so you need to be out there, in their face during the day.

So, you know, I anticipate a lot of these things that happen. I do not like to consider myself a victim by these circumstances. So we have to plan for these events. I am not happy about them. It erodes my profit. You know, but at the end of the day, our mission statement in my company is that we help the government keep Americans safe because of the work we do, and that is really what drives my workforce. They are not highly-paid employees. Many of them are Service Contract Act employees that make minimum wage. And when I ask them why they get up and come to work every day, especially in places like Lee's Summit, Missouri, supporting the National Benefits Center for Immigration, it is because, Mrs. Gerding, I am helping keep Americans safe because I am keeping terrorists out of this country. And I am thinking, you open the mail. But they feel such a connection to what they are doing every day that that is what brings them to work. So I think that there has to be something other than the money. People have to be prepared for these events if you are going to be in government contracting.

Mr. VEASEY. Thank you very much.

Chairwoman VELAZQUEZ. The gentleman's time has expired.

And now we recognize the gentleman from Florida, Mr. Spano, for 5 minutes.

Mr. SPANO. Thank you so much, Madam Chair, Ranking Member. I appreciate your leadership and look forward to serving under it these next 2 years.

I am grateful for each of you that have come and offered your expertise and testimony. I am, as was mentioned earlier, a small business owner as well, and I have owned my own business for over a decade now. And frankly, it is one of the things, the challenges that I was encountering as a small business owner was one of the things that really prompted me to run for office, to seek office as a member of the State House because I really did not feel like government really had my back, that government really cared about small business. There was a lot of lip service being paid to small business but there really was not a whole lot being done to help. And so I am glad for what the Small Business Administration has done, for what this Committee has done in that regard, and I look forward to serving you in an effort to help small business moving forward.

I am trying to get a handle around, and maybe it was offered before I walked in, but I am not sure who among you would be willing to offer your testimony on this, maybe Mr. Rowe potentially, but the percentage of small businesses that actually directly contract with the Federal Government and/or have subcontracts that are directly impacted by government shutdown.

Mr. ROWE. Well, Mr. Spano, I am just going to quickly rely on some information I got from my friends at the US Chamber of Commerce. I serve on their Small Business Council. What they put together working with Bloomberg.gov one agency spending data. They found 41,107 small business contractors and \$2.35 billion in contracts at risk during the shutdown. I can give you this document. I am happy to. It has a breakdown state by state. In Florida, there were 2,359 contractors, small business contractors.

Mr. SPANO. And thank you for that information.

I guess what I am looking for is a comparison. I understand the numbers that have been offered, the total projected impact, but vis-a-vis those small businesses that do not have direct or even indirect contact with the government in terms of contracting, what are we looking at in terms of percentages?

Mr. ROSE. Well, if you look at the Office of Advocacy, I think their numbers say they are around 27 million small businesses in the United States, but I think if you look at small businesses with employees, it is probably closer to 8 million.

Mr. SPANO. Okay. And I did not major in math. That is why I became an attorney. So just in my head I am trying to figure out what percentage is that? It seems like, obviously not to minimize the impact, but it does seem like a fairly small percentage.

One of the things that I do and have done in the last 6 years as a member of the Florida House, and I am sure we will be doing it here as well, is to balance competing policy interests. There is usually an argument to be made on both sides. Sometimes you can usually make pretty good arguments on both sides but you try and do the best you can to weigh those interests and then come down on what you feel like is the best thing to do.

One of the things that I would be interested to hear about at some point, Madam Chair, in the next maybe few months, is the impact that illegal immigration potentially has on small businesses. The uncertainty that our inability to come to some long-term agreement on immigration reform. I would love to hear the impact that that has on small business because obviously that is an issue as well, and certainly, we are not going to, any of us disagree that that is an issue that is of concern, that has at least in part caused the shutdown. And so it would be helpful for me to understand the impact of that issue on small business. And whether or not that interest in the small business community's interest, the impact that it may have on them outweighs the potential interest that is served by having certainty with regard to continued government.

Do you follow my line of questioning? And so I guess I have got 24 seconds here, but I guess would you acknowledge that that is an issue of potential concern, the uncertainty that illegal immigration causes and would it not be a great idea to have an idea at least from the small business community of how that impacts our policymaking decisions?

Mr. ROWE. I would never say that there is not an impact from that. One of our SBDCs testified last Congress for Mr. Chabot on the impact that opioid awareness and the opioid crisis is having on small business. All of these things add up. And I think there are indirect impacts from a shutdown that go beyond the contractors

and the subcontractors. If you just look at, for instance, all of the restaurants and other businesses that might surround a Federal facility, you would be amazed at how many lunches at a large contracting facility, if you have a restaurant next to it, that you are missing in 3 weeks. That is a big chunk of their business. It is all, you know, a big, interconnected ecosystem.

Mr. EVANS. I thank the gentleman.

I am temporarily filling in for the Chairperson. As you can see, I am not the Chairwoman. However, I want to make sure that I ask questions myself. I limit myself to 5 minutes to ask questions.

What I would like to do is start off with my question that I believe is a discussion that is taking place right now at the Ways and Means Committee. I am honored to be on that Committee, and that Committee is holding a hearing today, The Focus on Improving Retirement Savings for American Workers.

One thing I have been hearing is that many workers are not offered a retirement savings plan through private employers. Around 2 million people in my home state of Pennsylvania do not have access to a retirement plan through their employer. That is especially true for employers of small businesses. Due to obstacles these businesses often face them being able to provide employee benefits.

Ms. Gerding, in your written testimony you discuss some of the financial impacts of the shutdown on your workforce. Can you explain how the shutdown impacted benefits small businesses offer to employees like retirement plans?

Ms. GERDING. So we do offer a retirement plan. In fact, if you are going to be a government contractor, to keep up with your competition, you need to have some sort of benefits package. The really small companies, maybe not. But as you start to do more and more work with the Federal Government, you really need to have one.

In our particular case, my concern that we are trying to pull numbers around is if an employee did not draw a salary during the shutdown, what did they lose in 401(k) contributions that they might have had coming out of their paycheck? And then what was the match that they lost that our company would have provided?

We had a couple of people who had garnishments in their paychecks. So when we started talking about this with my HR person, what came to light was that they were going to have a reduced paycheck anyway. So let us say they were going to get \$1,500 for a pay period. All of a sudden now, because of the government shutdown, they took leave without pay, it is now maybe \$750. They now have a garnishment pulled out of that. They now have flexible spending. So we up front the cost in their flexible spending accounts at the beginning of the year, let us say \$2,500. In January, they may have had something that they went to the doctor for. So the first thing we are going to do before we pay them is pull that money out of their account. So now when they are expecting about a \$750 check, they are really only going to get, let us say, \$350. So we are trying to assess the costs of that right now and what the impact is. But the biggest one that I can think of in terms of benefits is flexible spending. I was concerned about health care because our SCA employees contribute through their health and welfare benefit that the Department of Labor under the Service Contract Act requires that we pay. If an employee took leave without pay,

they were not entitled to the health and welfare benefit. Those people, the company paid for their health care during that shutdown period when they were leave without pay. So no one went without in terms of healthcare benefits. And there is no discussion right now to pull that money back out of their pay.

So health care a little bit, although no one was adversely affected, and 401(k), which no one has brought to my attention either. I am always concerned about being an older person, I want to make sure that the young people are looking towards the future and their 401(k). And do not match that match that the company is giving you, so.

Mr. EVANS. Thank you.

Mr. Rowe, the agriculture industry, which is critical to my home state of Pennsylvania, in total agriculture contributing \$75 billion to our state economy, our ability to explore and promote our products in the global market is critical to not only our economy but obviously, the livelihood of individuals. In your written testimony you highlighted the challenges some of your clients face when attempting to explore goods and services. Can you elaborate on that, please? And what impact does this have on the ability of our small businesses to remain competitive abroad?

Mr. ROWE. Now, when there is a shutdown, you lose access to the Census Bureau's assistance on export regulations and information. You lose the Commerce Department's support, the International Trade Administration's support. Our Small Business Development Centers, a lot of whom in Pennsylvania and other states form a backbone for the state's export program, then we are kind of fighting for the small business with one hand tied behind our back at that point.

Mr. EVANS. I yield back the balance of my time.

The next person who has questions, I think this will be the first time on the Small Business Committee, a brand new gentleman from the great state of New York, Mr. Delgado. You have 5 minutes.

Mr. DELGADO. Thank you, sir.

I am really excited to be here. I thank each and every one of you for your testimony and for taking the time. I really appreciate it.

I did want to, as I heard one of my colleagues speak about competing interests and how there could be valid positions on either side, I would be remiss to not make the point that it is hard to have those interests compete in the absence of an open government. That is their role. And so I would just encourage all of my colleagues to understand that we need government for interests to compete. Otherwise, what are we doing?

And for that reason it is simply inexcusable that we found ourselves in this position. And as members of this body, we cannot let us get there again.

Now, over the past 34 days, I have held three public town halls and met with folks back home who are farmers and contractors and small business owners. We have over 27,000 in my district. And Mr. Butcher, I would also note that my district has one of the most breweries in the country.

The impact is unnecessary, obviously, of a shutdown. In fact, one of our local cideries received a value-added production grant from

the USDA but they could not receive their reimbursement for the equipment they purchased during the shutdown. Other farmers in my district are highly concerned about the H2B visa program and that migrant farmers will be arriving a month later than expected. This shutdown has created uncertainty as discussed and frustration from many in my district who are working hard to make ends meet. I think we have all heard the statistics. Seventy-eight percent of folks in this country living paycheck to paycheck. You miss a check, it is going to hurt. And it is simply unacceptable that we find ourselves in this position.

So my question is for you, Mr. Butcher. In your testimony you mention the deep supply chain that brewers rely on. Can you talk about how the shutdown has affected the brewers and farmers you work with and what would happen if the Governments down again at the end of this week?

Mr. BUTCHER. Thank you, Mr. Delgado.

Our supply chain obviously is crucial to our business. We rely on our farmers. We work closely with them. We work directly with a wheat farmer in the Northern Neck of Virginia. And we plan with them our production schedule. And they plant their crops according to what our needs are. And we are fortunate to have a farmer who is able to work with us and who is able to scale up with us and continue to help us grow our business. And if we are not able to buy that grain because we cannot get our label approved because the TTB is shut down, it directly affects their small family farm as well. So they take this grain that they have grown for us and they have to figure out what to do with it. Do they send it to a malting house and try to find another buyer for it? Are they going to downgrade it and sell it as animal seed and make a much lower sale price on it? Or are they just going to lose that business altogether?

We also contract 2 and 3 years out with our hop farmers. And these are farms in the Pacific Northwest. They are farms mainly in the Pacific Northwest, but we have to work with them 2 and 3 years out to plan our purchases of hops. And they also are putting the hops in the ground that we want to buy a year from now and 2 years from now. So there is long-term planning that goes on. And like I said, the last 4 months of the year we spent with our sales and marketing and our production team planning out the brewing schedule, planning out our new release schedule, and planning out our supply chain purchases as well. So that is really how it affects upstream with our farmers and with our suppliers.

Mr. DELGADO. Thank you. That was very helpful.

I yield back the rest of my time.

Mr. EVANS. I thank the gentleman.

The next gentleman I would like to, Mr. Kim, who is the Chairman of the Subcommittee on Economic Growth, Tax, and Capital Access, I want to let you know that I was the Ranking Member for that, so you see where I am today as a result of that.

Mr. KIM. So you will have some good advice for me.

Mr. EVANS. Mr. Kim?

Mr. KIM. Well, I appreciate that.

Thank you so much for coming and sharing your thoughts and wisdom with us.

My district is very much a small business district in New Jersey. It stretches from the Delaware River to the Jersey Shore, and you know, this is an area where I constantly hear from people about their concerns. And similar to my colleague, you know, having a town hall, hearing about just the difficulties with deal with that political uncertainty. And I think for me, I come at this from an angle. I have been a public servant my whole career. I have been on the foreign policy side. Coming into this there is a lot that I need to learn, and I try to come into this job with a certain amount of humility to understand what is it that we can be able to provide?

So when I am asked those types of questions at a town hall from a small business owner asking me, you know, what advice do you have for me on how I can best position my business going forward for these types of political uncertainties, whether that is government shutdowns or other problems, I wanted to ask that question to this panel here and just get your collective thoughts on what is it that I can do to pass that message back? What should I be telling small business owners in my business on how best they can try to weather some of those uncertainties going forward?

I will open that up to anyone who wants to jump in.

Ms. GERDING. So my advice is planning for a crisis. I think that every company should go through those exercises, whether they are a cybersecurity attack or a financial impact that hits the business, and how you are going to handle those things. If it is not a line of credit that you have in place and worked out a good relationship with your bank so that if you miss your covenants on that line they understand, especially if you are in Federal contracting. You really need to exercise and plan those events. That is the only way that we would get through that.

Mr. BUTCHER. As a small business owner, when we were opening the small business, my wife's advice to me as we were planning was to not just have a plan B but always love your plan B. In a situation like this, it is not really, we have been at a loss. What are we going to do? And it is hard to put together a plan B when the basic functions of the regulators that you rely on are just not open for business. So unfortunately, I do not have a lot of answers. We are still waiting to hear back from the agencies now that they are reopened, but I guess my advice would be to find a way to keep the government functioning.

Mr. KIM. Go ahead.

Ms. GERDING. I want to add one more thing. There is something that my company tracks called the Z score. It is a Z score. And we evaluate our performance at the end of every month based on our Z score. And what that is, is a combination of looking at different financial factors and what the backlog in terms of how much money I have. If everything were to stop in my business today, how long can I sustain my business? And if business owners, small business owners are not looking at those kind of numbers and have 3, 4, 5 months of reserves ready to go, they are in a bad situation. Government contracting is pretty stable, but then you have these moments like this that are unpredictable. So when we look at our numbers, and we do a financial analysis at the end of every month, that is one number that I focus on is how many months could I op-

erate if nothing was paid? So I think that is something that business owners need to start looking at is those numbers.

Mr. KIM. No, that is right. I mean, this is helpful. I mean, first of all, it is just an unnecessary burden that is placed on small businesses for having to deal with the failures of Washington to be able to get their house in order. And I think not only is it unpredictable in terms of timing, but it is also unpredictable in terms of what services will be closed and which ones will be open. And that is constantly difficult especially when what I heard is small business owners that are telling me they do not have the time to keep track of everything that is happening and the political discussions about what is going to stay open and what is not and that they were trying to see, you know, what my office might be able to provide to try to help with some of that clarity. I am certainly interested in what this Committee and other institutions in our government can be done so that every small business owner themselves does not have to go out there and dig that information up, you know, every time that there is some moment of potential political instability. So that planning and that kind of information is key.

Ms. GERDING. Can I say one more thing?

Mr. KIM. Yes.

Ms. GERDING. Industry associations solve that problem for me. I belong to the Professional Services Council, the Mid-Tier Advocacy Group, and the National Veterans Small Business Organization. All three of those groups are focused on government contracting. It is difficult to stay on top of every regulation that is passed up on The Hill here. What happens is they synthesize it and they force feed it to me in things that I need to know about on a regular basis. So that might be something they want to consider, is join a professional organization that will keep them apprised, whether it is the Chamber of Commerce or an industry association so that they do not have to try to stay atop of what is going on up here.

Mr. KIM. I appreciate that.

I yield back.

Mr. EVANS. Thank the gentleman.

I want to thank all of the witnesses for taking time out of your busy schedule. Your comments were very helpful.

It is clear from the testimony today that the government shutdown had dire economic and real consequences on our small businesses, the SBA, and our workforce. As we look towards the next looming deadline, I hope we can all remember what we heard today and work quickly to find a long-term solution.

I would ask for unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered.

If there is no further business to come before this Committee, we are adjourned. Thank you very much.

[Whereupon, at 12:37 p.m., the Committee was adjourned.]

APPENDIX

“Economic Effects of Government Shutdowns”

Testimony by

Matthew D. Shapiro¹

Committee on Small Business
U.S. House of Representatives

February 6, 2019

Thank you for the opportunity to testify about the effects of the recent partial government shutdown on government workers and contractors, small businesses, and the overall economy.

The recent government shutdown had an immediate and direct effect on government workers and contractors who were not paid during the shutdown. Many households live paycheck to paycheck. An average government worker’s household has about a week’s worth of cash in their checking account at the end of a two-week pay period; roughly 20 percent have only a day’s worth of spending on hand just before their payday. Hence, many government workers needed to take multiple steps to make payments and meet expenses when they went payless during the recent shutdown. Contract workers who went payless, in addition to having similar low cash buffer, had little prospect of being paid retroactively.

Research on the 2013 government shutdown provides some concrete evidence about how government workers coped with a drop in pay and provides insights into how the direct effects of the lost pay affect the economy in general and small businesses in particular. In October 2013,

¹ Matthew D. Shapiro is the Lawrence R. Klein Collegiate Professor of Economics, University of Michigan, Ann Arbor Michigan. This statement reflects his views and not necessarily those of the University of Michigan.

when government workers received a reduced paycheck owing to the shutdown, they took a number of measures.

First, on average, they cut overall spending by an amount equal to about half the pay shortfall. Households with a low cash buffer cut spending more sharply. Households who had an adequate cash reserve to absorb the temporary loss of income cut spending only modestly.

Second, many deferred payments including mortgage, rent, and credit card payments. It is also interesting to note what they did not do. There is little evidence that workers affected by the 2013 government shutdown borrowed by incurring new charges on their credit cards. Those who entered the shutdown with little cash and substantial credit preferred to cut back spending rather than accumulate new debt.

Because the 2013 shutdown was resolved quickly and workers were promptly paid retroactively, it had little lasting effect on workers' financial condition or on the overall economy. Workers who deferred mortgage payment or rent were able to make payments once they received retroactive pay—often within the month—so there was no discernable effect on their credit.

While the coping strategies of affected workers in the recent shutdown appears to have been similar to that in 2013, the severity of the shutdown for affected workers and contractors led to much greater economic impacts.

Because the recent shutdown started at the beginning of a pay check cycle for Federal workers, the first payday during the shutdown was completely payless, rather than the 40 percent reduction in pay experienced in 2013.

Because of the length of the shutdown, affected workers faced a second payless payday on the day the shutdown was finally resolved.

Very few households—less than one-quarter according to my estimates—have sufficient cash buffer to offset a month with no pay. Hence, as the shutdown entered its fifth week last month, there was considerable risk of a sharp drop in economic activity had it continued. The out-of-pocket costs of coming to work—commuting costs or child care expenses—are significant and needed to be paid by those mandated to work without pay. From the worker’s perspective, the temporary expedient of skipping a payment of rent, mortgage, credit card, cellphone, utility, insurance, or doctor’s bill—something that might have at first seemed fairly low risk given the shorter duration of past shutdowns—was a looming financial disaster for many households. The prospect of receiving past due notices on such bills had the shutdown continued into another month justifiably led to growing panic and despair among those affected. This impending financial distress almost surely impelled sharp drops in discretionary spending leading up to the second missed paycheck—with no pay coming in and late payment notices in mailboxes, households would have been cutting whatever spending they could.

Some small businesses were likely affected by this drop in consumer spending. Small businesses serve the many consumer needs for discretionary purchases. So the flip side of the sharp drop in consumer spending among affected workers was a drop in sales of these businesses. Examples include restaurants and coffee shops, dry cleaners, corner grocery stores, parking lots, movie theaters. Household cutbacks focus on discretionary purchases—such as eating out—or big ticket items that can be deferred—such as car or appliance purchases. Many of these

establishments that offer these goods and services are small businesses. Businesses in locations where Federal workers and contractors live or work were disproportionately affected.

Systematic data are hard to come by, but again the 2013 shutdown provides some evidence. We estimate that the average Federal worker affected by the shutdown cut coffee shop and fast food spending by \$1.50 per week during the shutdown in 2013. Adjusting for the long duration and sharper cut in pay in the recent shutdown, that translates into an estimated \$15 million cut in total spending at fast food outlets and coffee shops. That's less than a tenth of percent of sales nationally, but given the geographical concentration, small businesses in areas such as Washington DC must have seen very significant drops in business.

Workers' deferred payments also affected businesses. Many of these payments—those on mortgages, credit cards, or utility and phone bills—were due to large financial institutions and companies that were likely little affected. Late rent payments, in contrast, may go to landlords who themselves owe payments to creditors and to the small businesses who service their properties. The shutdown may have placed such businesses under stress, which could have been quite severe had it continued much longer and therefore affected a second cycle of monthly payments.

More comprehensive estimates of the effect of the shutdown are available from official statistics and macroeconomic models.

Because the annual appropriation for the Department of Labor had been enacted, the availability of employment data from the Bureau of Labor Statistics was not affected by the shutdown.

There are two sources of monthly data on employment: data collected from establishments and data collected from households. In the jobs report last Friday, furloughed Federal workers were counted as employed since they would be paid retroactively. Hence, the furlough had little effect on the strong jobs report for January. In the unemployment statistics, furloughed workers are counted as on temporary layoff and therefore add to the unemployment rate. In January, 175,000 furloughed workers were among the unemployed—contributing to the uptick in the unemployment rate to 4.0 percent.²

The Department of Commerce was affected by the shutdown, so other economic statistics are delayed. The Bureau of Economic Analysis (BEA) was scheduled to release the GDP statistics for the fourth quarter of 2018 on January 30. That release has been delayed with no announcement as of yet for when the businesses, policy makers, and the public will get this first comprehensive assessment of the performance of the economy at the end of last year. Some data required for calculating GDP were not collected during the shutdown. Specifically, the Census Bureau could not field the Advance Retail Trade survey in January, so key data on consumer spending are missing. These will have to be filled in using retrospective surveys, so information on the overall state of the economy may be delayed by as much as a month.³ Other data of

² BLS analysis suggests that some furloughed workers responded to the survey that they were away from work rather than on layoff. The BLS does not adjust the unemployment rate to reflect such underreporting of layoffs, but reports the unemployment rate in January would have been slightly higher had all furloughed workers in the Household Survey reported that they were on layoff.

³ In past shutdowns, the Census Bureau have asked businesses for retrospective reports when the government has reopened. Though it has not announced it plans, I expect that the Census Bureau will collect December and January retail trade statistics when it fields its next survey in the middle of this month.

particular concern to small business, notably housing starts, were not released in January owing to the shutdown.

What are the effects on the shutdown on economic growth in the short run? Economists estimate these short-run effects by calculating the loss in total income and then by calculating the direct effects on spending of those who lost the income. These estimates also account for the spillover or “multiplier” effects, for example, when a coffee shop that serves Federal workers cuts hours of its employees in response to slack demand. The Congressional Budget Office has estimated that GDP will be 0.2 percent lower this quarter and 0.1 percent lower over the year owing to the effect of the shutdown on aggregate demand. That GDP is projected to rebound somewhat from the initial drop reflects the presumption that government workers will make up some of the lost spending from December and January when they get paid retroactively. Contractors are not expected to be paid retroactively, but might partially recoup lost payments as work that was delayed during the shutdown gets made up. The CBO estimates are based on parameters that are consistent with what my research found about the drop in spending and the post-shutdown rebound in 2013.

There are reasons, however, to be concerned that the rebound in spending will be more muted than in past shutdowns. The agreement to end the shutdown gave the Federal workforce and the economy a three-week reprieve. Absent an agreement to fund the government beyond mid-February, both workers and businesses are presumably behaving with caution. For Federal workers, this could mean trying to build up a cash buffer against the risk of a new shutdown. For

businesses who serve Federal workers or contract with the government, this could mean delaying new hiring or delaying purchases of equipment.

There is a growing body of evidence that uncertainty about government policy is a drag on the economy. February 2019 is likely to be another data point supporting these estimates.

The University of Michigan has a long-standing survey of consumer sentiment that provides insights into how consumers across the country reacted to the shutdown. The Michigan Survey of Consumers showed a sharp decline in consumers' confidence about the economy. The index dropped 7.2% from December to January, a very sharp decline. The survey asks respondents what news is affecting their outlook. Many mentioned the shutdown. This decline in sentiment signals a weakening economy. It may be reversed, but probably not until a longer-term budget agreement is in place.

The estimates of the effects of the shutdown on the economy that I have discussed mainly relate to the direct and indirect effects of the lost income of government workers and contractors, and how this spills over into the sales of business. There are other effects—much harder to quantify but equally important—from having the Federal government operating partially for five weeks.

The deterioration of the air transportation system was highly visible, and the events at LaGuardia Airport on January 25, 2019 likely helped prompt the temporary agreement to reopen the government. Even before the impending crisis at the end of the shutdown, uncertainties about delays made planning trips difficult and likely lead to cancellations of business and personal travel.

Federally-funded research projects were curtailed, with possible permanent loss of scientific data.

Businesses regulated by the Federal government faced delays in their operations and may have lost business opportunities as they waited for regulatory approvals.

Small businesses and farms participating in Federal programs faced liquidity problems as payments on government contract or approval of SBA loans were delayed.

Those doing business with the government, awaiting regulatory approvals, awaiting loan approvals, or trying to get information will face delays as the affected agencies clear the backlogs associated with the five-week closure. These disruptions likely have a cumulative and persistent effect on business output and productivity.

Perhaps a silver lining from the recent shutdown is that the widespread disruptions it caused made salient the many Federal functions that provide vital services to businesses and the public. Interruptions in these vital functions have a real cost to the overall economy and individual American's well-being.

Chairwoman Velazquez, Ranking Member Chabot and members of the Committee, thank you for asking me to testify today on the impacts that the recent government shutdown has had on small and independent brewers.

My name is Bill Butcher, and I am the founder of Port City Brewing Company, located in Alexandria, Virginia. Port City began operations in 2011 and since then we've grown to employ more than fifty people. We brew a variety of beers, with a number of year-round staples as well as seasonal beers and one-off efforts for special occasions. Our brewery also has a tasting room where we offer tours and sell beer. In addition, we are distributed in Virginia, Washington, D.C., and Maryland. In 2015, we were named Small Brewery of the Year at the Great American Beer Festival and our beers have won, local, national and international awards.

Even though we sell our beer around the country and in some cases overseas, Port City Brewing is committed to being a local and independent brewery. We have strong ties to our city and state. For example, we purchase close to 400,000 lbs. of Virginia-grown wheat that is used in our Optimal Wit, one of our flagship beers. We're proud of our work and the jobs that we have created not just in brewing, but also with our supply chain partners in manufacturing, agriculture and retail. We are one of the almost 200 independent breweries located in Virginia that have an economic impact of \$1.3 billion on our state.

Our brewery is just one part of the 7,100 located throughout the country. According to the Brewers Association, the trade association that represents the small and independent brewing industry, craft breweries contributed \$76.2 billion to the United States economy in 2017 and employed more than 135,000 Americans in manufacturing and service jobs. There are around 7,100 small and independent breweries across the United States, and our numbers continue to grow every day, with more than two new breweries opening every single day.

Running a brewery is a capital and time intensive business. We're dependent on the availability of agricultural inputs like hops and malted barley, as well as reliant on brewing equipment including tap handles, packaging materials and kegs. Breweries must also comply with wide-ranging local, state, and federal laws that regulate food safety, alcohol sales, and standards for labeling, canning, and bottling.

As a small business we rely on planning to make sure that we can operate our brewery, meet our suppliers needs and pay our employees. We do everything in our power to make sure that we are prepared for the year to come. We know that unexpected issues can arise, and we take the necessary steps to prepare ourselves for them. Unfortunately, no one was able to prepare for the impact that the partial government shutdown would have on breweries. Two major agencies that we rely on to run our business were closed during the 33-day shutdown, the Alcohol and Tobacco Tax and Trade Bureau (TTB) and the Small Business Administration (SBA).

The TTB is responsible for regulating not just the beer industry but also other alcohol beverage producers. Existing breweries as well as breweries in planning need the TTB for:

- **Certificate of Label Approvals (COLAs):** Also known simply as label approvals.

- Breweries are required to get TTB COLAs if they package their beer and sell it across state lines. This specifically impacts new brands and styles.
- Some states require breweries to obtain TTB COLAS for all beer sold in state and in kegs and in growlers sold from the tasting room.
- Due to brewery release calendars and supply chain constraints breweries tend to plan their releases well in advance. A delay in label approvals could impact beer releases as far away as summertime.
- **Formula Approvals:** If a brewery is brewing a beer with ingredients that are outside of the TTB's pre-approved list they are required to get a formula approval.
- **Brewer's Notice:** A Brewer's notice is a permit processed by the TTB that a brewery is required to have to operate. Brewers usually apply for their federal permit several months before beginning operations. Approval of pending and new notices and other permits issued by TTB is the most serious part of the backlog, as it will delay some brewery openings even post- shutdown. This will impact breweries in planning and breweries that are applying to open satellite locations. Many notices date back to early in the fourth quarter of calendar year 2018, and brewers typically must take out significant loans to reach the point where the facility can be approved by TTB. Unlike federal employees and contractors who may ultimately be made whole after the shutdown, these businesses have no way to recoup lost business opportunities caused by the shutdown.

As you can see, a number of prior approvals by TTB are required by law to run a brewery.

You may be surprised to hear that as an industry we get along fairly well with our federal regulators. The brewing industry has a good partner in in the TTB, which over the past few years has taken steps to increase efficiency and turnaround time of label and formula approvals as well as brewer's notices.

Year	# of Breweries	# of Malt Bev. Label Approvals
2013	2,952	17,000+
2018	7,100	34,000+

As you can see from the above chart, in the past five years the brewing industry, as well as the number of labels that require approval, have grown significantly and that doesn't include the label approvals for wine and spirits. The TTB has grown with the industry and has worked hard to keep up with demand. Prior to the shutdown the turnaround time for label and formula approvals was anywhere between six and thirty days. At Port City our labels were often approved within two weeks.

The partial shutdown that resulted in the TTB's closure has had a major impact on approval times. As of the writing of this testimony (February 1, 2019), the TTB estimated a fifty-three-day approval time for malt beverage labels and was only processing labels submitted by December 13, 2018 (nine days prior to the shutdown). This backlog is not the fault of the TTB. As the employees who process labels, formulas and brewer's notices are deemed "non-essential", they are forbidden from reporting for work for the thirty-three days the agency was closed resulting in

a significant backlog of approvals that grew exponentially each day they were closed. The TTB Market Compliance Branch, which monitors recalls and consumer inquiries was also closed during the shutdown.

	Certificate of Label Approvals	Formula Approvals
Annual Approvals	34,166	2057
Daily Average	93.6	5.6

To give you an idea of how this hurts a brewery, I will use Port City as an example. We spent the last four months of the year putting together a release calendar for 2019 beers to help us determine when we will purchase ingredients and packaging supplies. On December 18, we submitted a label for a beer we were planning to release in the spring. Until we get that label approved we can't sell that beer, which means we aren't brewing that beer, and the entire supply chain is on hold. The uncertainty isn't just impacting my business, its impacting everyone I do business with.

The backlog of approvals will impact us throughout the calendar year. It will affect our brewing schedule, our sales people, our supply chain partners and the bars and restaurants that sell our beer, and we are just one of the 1000's of breweries who are dealing with the same combination of issues.

The Brewers Association has heard from multiple members about how the backlog at the TTB is impacting them. From a brewery that is currently waiting for twenty-seven formula approvals to be able to make and sell their beer to the breweries in planning that are already pushing back their projected opening dates there are numerous examples of how the brewing industry is going to be affected by the government shutdown. Because there are breweries in almost every congressional district in the country, this a nationwide issue.

The brewing industry is growing, but for that to continue we need certainty when it comes to our regulators. Breweries need the TTB to be open so they can operate their businesses effectively and efficiently. Going forward, we are asking that TTB employees be declared essential. To our business and thousands of others, they are just that. If you empower a federal agency to give approvals for basic business activities, you need to keep them at work.

Unfortunately, time is of the essence. The upcoming deadline for funding the government has brewers throughout the country nervous about another shutdown and its long-term impacts on their businesses. We encourage Congress to work with the Treasury Department and the Office of Management and Budget to declare TTB employees essential.

The shutdown also affected Port City by furloughing SBA staff who were working on a loan application for a new bottling line. Because of the closure we were unable to lock in an interest rate which could increase the cost of our loan by thousands of dollars. SBA loans are important to the small and independent brewing industry. SBA has guaranteed loans to breweries in all 50

states, DC and Puerto Rico, with more than 1,900 loans totaling \$1.4 billion and supporting 20,000 jobs. I can attest firsthand the importance of those loans in providing the ability for businesses to grow, increase economic output and increase hiring in their communities. We ask that SBA employees who approve federally backed loans be declared essential.

Congress can also help mitigate the effects of the shutdown by making the federal excise tax (FET) rate from the Craft Beverage Modernization and Tax Reform Act permanent. In 2018, breweries, wineries and distilleries across the United States have hired new employees, increased their economic development and made capital improvements to their businesses.

The Brewers Association commissioned a sample of 545 small and independent craft brewers across the United States to participate in a survey about how the federal excise tax (FET) recalibration, which lowered the FET paid by breweries, is impacting their businesses.

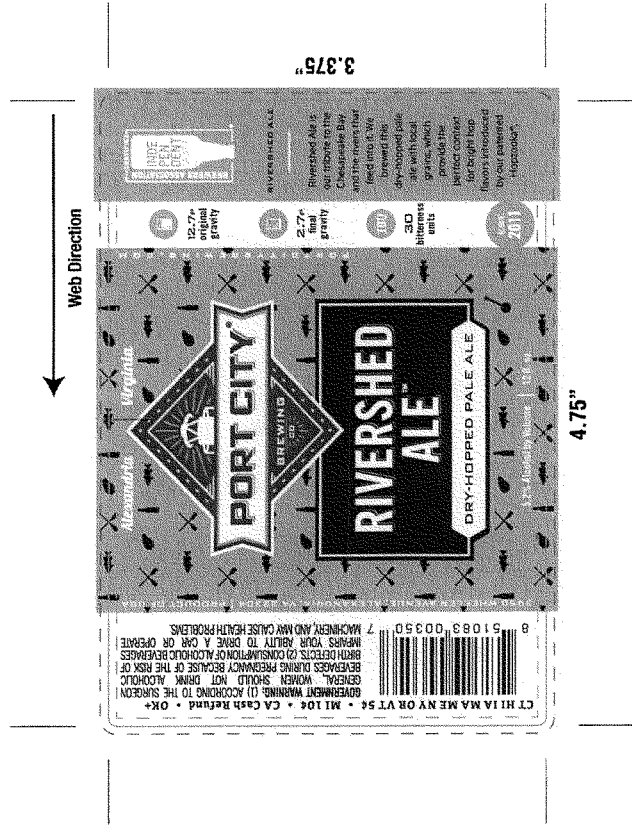
The breweries who participated are located in all fifty states in the U.S. and range in size from twenty-five barrels (bbls) per year to over two million bbls per year. When asked how they are using the federal excise tax recalibration savings, responses included the following:

- 399 breweries responded that they would be increasing their economic development by purchasing new equipment, upgrading their tasting rooms and breweries, moving to new buildings, etc.
- 293 breweries responded that they would be hiring new employees at an average of 2.7 new employees per brewery.
- 216 breweries responded that they would be increasing their employee benefits by raising pay, offering insurance and expanding vacation time.
- 116 breweries responded that they would be increasing their contributions to charity.

I believe you will agree that small and independent brewers are using the tax benefits to reinvest in their respective businesses and communities across the nation. Making that rate permanent in 2019 will allow breweries to continue doing these things and help to cover potential losses that were a result of the government shutdown.

In conclusion, my company and other breweries need reliable federal partners and economic certainty to continue to grow. For breweries to keep producing and selling beer we need our federal regulators to remain open. I ask that in the future, you work to get TTB and SBA employees declared essential.

Thank you again for having me here, and I look forward to any questions you may have.



U.S. House of Representatives Committee on Small Business Testimony

by HeiTech Services, Inc., a Maryland corporation on

“The Shutdown: Economic Impact on Small Business”

Good morning and thank you for inviting me to share how the recent federal government shutdown impacted HeiTech Services, Inc. I am the CEO and founder of HeiTech Services, Inc. My name is Heidi Wolfangel Gerding and grew up in Minnesota but have since been a long term resident of Prince George’s County, Maryland. I am pleased to say that I am not only an entrepreneur but also a service disabled veteran and mother of four. I’ve encountered numerous challenges in life including,

- being the first woman from Minnesota to graduate from the US Naval Academy in the fourth graduating class of women (class of 1983),
- training minemen to build underwater mines in the Navy (a non-traditional job for women),
- managing the Department of the Navy’s HIV/AIDS program when the military first began testing the fleet for HIV and being implicated as having HIV because of that position,
- raising four children while serving in the Navy and subsequently working my way up the corporate ladder in private industry, all the while being judged for putting my priorities in the wrong place,
- starting a business with the push back from others that I wouldn’t make it and I was wasting time and money on my efforts, and
- going through a lengthy divorce after being told after 32 years that we no longer had anything in common.

These life lessons have impacted me in ways that I never dreamed would help in operating a federal contracting business. Although I no longer wear a military uniform, I can continue to serve this country through delivering services to the federal government under my company’s mission statement, ‘helping to keep Americans safe’. I can empathize with my employees as a woman, mother, and member of the family whose wages often supplied our livelihood. I oftentimes put myself in their shoes when tough decisions need to be made by the company. Finally, I am fearless and not easily shaken by obstacles placed in my path. I thrive on challenges despite the emotional toll they sometimes take on those around me.

HeiTech Services, Inc. is a woman- and service disabled veteran-owned small business headquartered in Landover, Maryland. Our three-year average revenue is \$22,110,548 which makes us small at the \$25M size standard ¹and above. We have been delivering services to the federal government for nearly 20 years. Our highest grossing year was in 2014 when we saw nearly \$45M in revenue with nearly 500 employees.

Our primary business line is processing paper and electronic forms for the federal government such as manufacturing applications for approval of medical devices, the processing of adverse event reports for

¹ Size standards are used by the Small Business Administration to determine whether the business is considered small or large based upon the NAICS code assigned to a procurement. Size standards are usually stated in numbers of employees or average annual receipts. The definition of small varies by industry.



medical devices caused by malfunctions resulting in injury, serious injury, or death, and other documents requiring FDA approval.

We also deliver mail, print and duplicate various materials, provide records management services, manage the collection, cataloging, and distribution of the results of grants issued to resolve rehabilitation and disability quality of life needs, support minority health program training and dissemination of information, conduct on site-inspections for compliance with various regulations, and other professional services.

Many of our contracts are considered mission critical; therefore, those people continue to work uninterrupted during the shutdown. Of our 20 contracts, four (4) were directly impacted by the government shutdown while all the others were indirectly impacted. All of these contracts are covered by the Service Contract Act (SCA²).

Of the four contracts that were required to shutdown, two were immediately impacted on December 24th, 2018, while the third began their shutdown on December 31st, 2018 and the fourth began on January 7th, 2019. As such, two projects were out of work for 25 days, one project was out of work for 20 days, and the last project was out of work for 15 days. Although the shutdown lasted 5 weeks, our employees were returned to a full pay status on the first day of their third week.

There are three areas to consider when looking at the total impact to a business: the financial impact to the employee, the financial impact to the business, and the emotional impacts to both the employee and my business.

FINANCIAL IMPACT TO EMPLOYEES

During the shutdown, our impacted workforce was given the option to use their leave (we would advance up to 40-hours if necessary), personal time, or leave without pay (LWOP). Normally, HeiTech Services would require employees to use vacation or personal time before approving LWOP but that policy was modified during this shutdown to allow employees to determine the best use of their time understanding future obligations. There were 36 people impacted by this shutdown; however, one (1) employee was on Family Medical Leave, one (1) was temporarily reassigned to headquarters to support adhoc projects, and one (1) worked part-time until he resigned on January 7, 2019. Thirty three (33) employees represent about 20% of our entire workforce and about 22.5% of our directly billable employees.

As of February 4, 2019, the following numbers of impacted employees have vacation and personal leave balances ranging from 0-5 days, 5-10 days, or 10 or more days.

	NUMBER OF IMPACTED VACATION BALANCES	NUMBER OF IMPACTED PERSONAL TIME BALANCE
Negative days	1	0
0 – 5 days	11	21
5.1 – 10 days	5	5

² Under the McNamara-O'Hara Service Contract Act (SCA), contractors and subcontractors performing services on prime contracts that exceed \$2,500 are required to pay service employees no less than the wage rates and fringe benefits prevailing in that area or the rates (including prospective increases).

10.1 and over	16	7
Total Impacted Employees	33	33

There are other potential financial impacts not yet gathered which are important to note. These impacts include:

- Loss of 401K contributions including company match if LWOP was taken,
- Because employees took some vacation or personal leave combined with some LWOP, their paycheck was smaller than usual; therefore, mandatory deductions could have further reduced their take home pay (e.g., incurred medical expenses leveraged against flexible spending account or mandatory garnishments issued by the court system).

In summary, the financial impact to our employees was \$30,402.81 in lost wages and \$19,297.40 in use of unplanned and unscheduled leave (vacation and/or personal). Of the 33 employees, the average salary is about \$47K a year or \$22.40/hour. The low and high ranges from \$14.88/hour to \$45.87/hour.

FINANCIAL IMPACT TO THE HEITECH SERVICES

HeiTech Services financial impact results in both direct and indirect loss. Direct loss is value of the employee's salary. Indirect loss results from the fringe³, overhead⁴, general and administrative (G&A),⁵ and profit earned as calculated off the employee's salary. As our employees began their third week of shutdown, HeiTech Services placed everyone back on the payroll using company resources, including leveraging funds from our line of credit and incurring interest on those borrowed funds. As such, HeiTech Services paid out \$91,725.89 from profit to cover these costs, not including any interest incurred on that money.

The total amount of indirect expenses paid during the time employees were not working totaled \$50,197.13 in fringe, \$10,615.84 in overhead, and \$33,192.46 in G&A. The total cost impact to HeiTech Services (furloughed wages, fringe, overhead, and G&A) was \$185,731.32.

In addition, there is the potential of lost revenue from these four contracts if our customers do not pay us for the time we were unable to work under our existing Firm Fixed Price (FFP) type contracts. In the month of December 2018, HeiTech Services could lose a total of \$73,267.96 and in January 2019,

³ Fringe is the proportion of benefits paid to the wages paid to an employee. The rate is calculated by adding together the annual cost of all benefits and payroll taxes paid, and dividing by the annual wages paid. Examples of benefits include: disability insurance, employer portion of medicare tax, employer portion of employer social security tax, health insurance, life insurance, unemployment insurance, and workers' compensation.

⁴ Overhead costs are ongoing business expenses that support the business but do not generate revenue. Overhead expenses are indirect costs that are fixed, variable, or semi-variable expenses such as: shipping, legal expenses, materials, office supplies, equipment maintenance, advertising, consulting services, rent, utilities, insurance, property taxes, depreciation of assets, annual salaries of people not on projects, fees, vehicle usage, marketing people salaries, etc. Overhead rate equals the overhead costs divided by the allocation of base of direct labor dollars.

⁵ G&A is residual costs necessary to run the entire business including: labor for strategic planning and business development, professional fees, travel, business insurance, state & local taxes, conferences, meetings, etc. G&A rates are determined by the total cost input base representing the total activity of the business.



potentially \$169,348.86 for a total of \$242,616.82. Although all four contracts are FFP type, our customers have historically pushed back on compensating us for the full month if vacancies exist or the government was closed despite the fact that our performance is predicated on meeting performance goals (e.g., timeliness, accuracy, or processing volumes). We are in the process of submitting invoices for December and January for these four customers, for the full month of services, and it remains to be seen whether there will be a loss of income for those months.

The lost revenue has an impact on our 2019 budget which was predicated on a projected revenue of \$16.5M. When the loss of revenue impact is applied to our 2019 budget (\$16.25M), it will create a \$102K deficit in this year's indirect expenses that must be closely monitored to ensure we do not overrun our budgets resulting in a loss for the year.

EMOTIONAL IMPACT TO THE EMPLOYEE AND HEITECH SERVICES

There is an emotional toll taken on our entire workforce resulting from the government shutdown. I've summarized some of the opinions voiced from our employees and categorized them into three impact areas: financial, communication, and work.

Financial

Employee focused:

- 80% of our employees do not have a reserve fund established for covering expenses in the event of a government shutdown.
- About 20% of my workforce felt that they were prepared for a government shutdown but no one believed that it would last as long as it did. Although some had financially planned appropriately, they were concerned that the reserves would be expended and they would need additional financial assistance.
- About 50% of those impacted by the shutdown required additional financial support whether through borrowing from family or friends, asking for an advance, or taking out a loan.
- 94% of those not working recorded leave without pay because they needed to save time for unexpected time off to care for ill children, attend medical appointments, save time for an upcoming marriage/honeymoon, etc.
- Many employees considered taking on a 2nd job to cover their expenses
- Many of employees have children in daycare. Of those that were not working, about 30% have children in daycare. Some of them were able to pull their children from daycare without any financial penalty while others did have a financial obligation at a reduced rate to maintain their attendance.
- Some of our employees are married to federal employees who were also furloughed making the financial impact to their family that much greater.

Company Focused

- We had one employee leave our employment during the shutdown because he saw the risk too high to plan for the future. The average cost of hire for a new employee is \$1,100 per hire which includes: recruiter salaries, monster subscription, Luceo applicant flow tracking, Craig's



list postings, employee referral bonuses, background checks, and typing/excel testing. This cost does NOT include the following:

- Time to clear a new hire through the NACI clearance process which can range from 3 – 8 weeks for a federal agency decision.
- If an agency disapproves an applicant, we have lost between 3 – 8 weeks and now must begin the recruitment process all over
- The time to train an employee
- 15 employees filed for unemployment. We can confirm that at least 50% were approved to receive unemployment benefits. This impacts our unemployment experience rating which is reviewed on an annual basis to determine our rates by which we pay taxes.
- 2 employees had garnishments from their paycheck which was delayed due to loss of wages during some of this time.

Communication

- Everyone knew about the possibility of a government shutdown. Both the customer and HeiTech Services appears to have kept the employees abreast of circumstances.
- About 50% of the workforce expected the government shutdown and the other 50% felt as though Congress or the President was bluffing and that the government would not shutdown.
- Those employees who retained their jobs were concerned that if the shutdown went much longer, their agency would be forced to furlough employees and issue stop work orders.
- Some of our projects deal with foreign firms. These foreign firms were at a loss as to how and why the government would shut down and the impact to these overseas firms. It presented as an embarrassment to our employees to try to explain these strange circumstances.
- There was an expression of relief when employees learned that HeiTech put employees back on the payroll after two-weeks.

Work

- Some of projects work on submissions from the public for government approval. These submissions were still being received but placed on hold until the government reopened. This process has caused some backlog which is still being assessed as to total impact.
- Although some agencies were open for business, they depended on information from agencies that might have been closed impacting the ability to complete projects.

SUMMARY

The government shutdown had a measurable impact on my business, my employees, and I imagine on all small businesses delivering services or products to the federal government. Although some small businesses are claiming that they had little impact, I can only speculate that they don't know the full impact to their business or understand how to calculate it and/or it is too much work for them to track. For HeiTech Services,

- nearly 25% of our direct billable employees were not working,
- nearly \$92K was paid to employees that may not be recovered
- nearly \$186K may be lost in indirect cost in December 2018 and January 2019



- nearly \$250K may be lost in revenue for December 2018 and January 2019
- our 2019 budget will need to be revised lowering the projected revenue from \$16.5M to \$16.25M
- our 2019 budget will need to be revised lowering our indirect pools by nearly \$102K

For our employees, they lost over \$30K in possible wages and unexpectedly had to use another \$20K in unscheduled leave. These costs only represent the tangible components and does not account for the emotional toll taken on this government shutdown. It is an embarrassment to this country that the federal government cannot approve a budget.

This shutdown has been perceived as an abuse of power by both Congress and the President at the expense of the constituency both represent. This confrontation is being referred colloquially and inappropriately as “The Mexican Standoff”, which ironically describes what this confrontation is about ~ a wall that separates the U.S. and Mexico. Little or no regard to how these decisions are impacting your constituency seem to be considered.

I am proud to say that HeiTech Services employees never went without a paycheck during the government shutdown. Pay was either covered through their own vacation, personal time, or by HeiTech Services.

CALL TO ACTION

A call to action is needed now. Some of the actions I would ask Congress to consider are:

1. **Fund all federal agencies:** Pass budget legislation to provide annual funding appropriations for the remaining seven departments and agencies. In other words, please keep the government open and work towards a bi-partisan decision between Congress and the President.
2. **Treat government contractors and federal employees the same:** Provide equity between federal employees and government contractors. From written and verbal thanks and appreciation shown to federal workers, the same needs to be done for federal contractors, to compensating businesses who employ federal workers the dollars lost as a result of this shutdown as they have their federal workforce. As a service disabled veteran and hearing how the veterans returning from Vietnam were treated is analogous to how federal contractors are feeling, not respected or appreciated. Let's turn today's perception of federal contractors into a positive story as we have with returning war veterans today that are embraced and thanked for their service. We deserve the same credit being given to federal employees in the press and in remuneration of pay.
3. **Approve Extraordinary Measures to raise the debt ceiling before the next financial crisis befalls your constituency and this country:** Finally, the debt ceiling is looming closer each day. Without increasing the limit through 'extraordinary measures' to temporarily finance government expenditures and obligations until a resolution can be reached, another catastrophic situation will bear down on this country and again, cause major harm to your constituency (businesses and the public alike). Rather than risk defaulting on some of our obligations triggering a variety of economic problems including a financial crisis, PLEASE, PLEASE, PLEASE pass legislation to approve the use of “extraordinary measures” to increase the debt ceiling.



It is important that this issue not be ignored because of the threat of another government shutdown on February 15th, 2019. I'm sure that Congress is completely focused on finding a compromise to fund all government agency's but the debt ceiling decision must be made by March 2, the day in which we either raise the debt ceiling or default. Take action now to prevent an economic and global panic resulting in:

- a. immediate negative impact on stocks and bonds;
- b. higher interest rates;
- c. people not being paid or the administration deciding who gets paid and who doesn't (e.g., bondholders, social security recipients, welfare recipients, companies providing equipment or services to the federal government, people and businesses waiting on IRS tax refunds, etc.);
- d. default across the world which would most certainly affect the value of a US dollar and global investors would shift money out of US assets resulting in long-lasting damage to America's reputation; and
- e. a recession.⁶

Thank you for taking time to read my testimony and considering the needs of my business, my employees, and their families. Remember that your constituents need you now more than ever. Act quickly, decisively, and in a bi-partisan manner.

Attachments

Attachments 1: General Corporate Information

Attachment 2: General Government Shutdown Impact

Attachment 3: Financial Loss Impact to Employees

Attachment 4: Financial Loss Impact to HeiTech Services

Attachment 5: Possible Impact to Revenue

⁶ Heather Long. "With the debt ceiling, President Trump is playing with fire." *The Washington Post*, August 25, 2017, Economic Policy/Analysis section.



Attachment 1: General Corporate Information		
Total Revenue in 2014, 2015, 2016, 2017, and 2018	2014	\$45,631,841
	2015	\$36,421,232
	2016	\$22,362,351
	2017	\$21,169,292
	2018	\$22,800,000
3-year Average Revenue (for size standard purposes)		\$22,110,548
5-year Average Revenue (for size standard purposes)		\$29,676,943
2019 Budgeted Revenue		\$16,500,000
Total Number of Contracts and or Subcontracts		20
Total Number of Employees		216 (Full and Part-time)
		173 (Full Time)
		160 (Directly Billable to a Contract)



Attachment 2: General Government Shutdown Impact	
Number of Contracts Directly Impacted	4
Total Number of Employees Not Working during Government Shutdown <i>(Employees worksite is at a closed federal agency)</i>	33 <i>(Note 1)</i>
Number of days DOT out [December 24 – January 25]	6 days – Dec (includes 1 holiday) 19 days – Jan (includes 2 holiday's)
Number of days EPA out [December 31 – January 25]	1 day – Dec 19 days – Jan (includes 2 holiday's)
Number of days FDA/DDM [January 7 – January 25]	15 days – Jan (includes 2 holiday's)
Number of days NOAA out [December 24 – January 25]	6 days – Dec (includes 1 holiday) 19 days – Jan (includes 2 holiday's)
Note 1: There were 36 employees affected but 1 employee resigned as a result of risk to his family, 1 was on FMLA, and 1 was temporarily reassigned to headquarters to support adhoc projects.	



Attachment 3: FINANCIAL LOSS IMPACT TO EMPLOYEES	
Employee Lost Wages [Leave without Pay]	\$30,402.81
Employee Unscheduled Leave Usage [Vacation or Personal]	\$19,297.40
TOTAL COST IMPACT TO EMPLOYEES	\$49,700.21
AVERAGE COST PER EMPLOYEE (33)	\$1,506.07



Attachment 4: FINANCIAL COST IMPACT TO HEITECH SERVICES, INC.	
Furloughed Wages Paid to Employee by HeiTech Services	\$91,725.89
Fringe Cost to Employer	\$50,197.13
• FICA (7.65%)	\$8,493.28
• FT-FUTA Tax Expense (7.00%)	\$7,771.63
• FT-SUTA Tax Expense (8.00%)	\$8,881.86
• Health & Welfare Expense (Actual)	\$21,060.44
• Workers Compensation Expense (1.00%)	\$1,112.57
• Unrecoverable SCA H&W Benefits (Actual)	\$2,887.34
Overhead Cost	\$10,615.84
G&A Cost	\$33,192.46
TOTAL COST IMPACT TO HEITECH SERVICES	\$185,731.32



Attachment 5: POSSIBLE COST IMPACT TO REVENUE FOR DEC 2018 AND JAN 2019	
AGENCY	DEC/JAN TOTAL LOSS INCOME BASED UPON DAYS OUT OF WORK
Department of Transportation	\$11,635.80
Environmental Protection Agency	\$13,938.32
Food and Drug Administration	\$34,349.10
National Oceanic & Atmospheric Administration	\$182,693.60
TOTAL REVENUE IMPACT	\$242,616.82





Testimony
of
C. E. "Tee" Rowe
President/CEO

February 6, 2019
Committee on Small Business
US House of Representatives

The Government Shutdown:
Impact On Small Business

Chairwoman Velazquez, Ranking Member Chabot,

Thank you for inviting me to testify today on behalf of America's SBDCs. I am the President and CEO of America's SBDC, the Association that represents the nationwide small business development center (SBDC) system of 63 networks with over 975 locations and over 4,500 dedicated professional counselors, advisors, specialists and support staff.

For 40 years the SBDCs have been providing services to small business owners and aspiring entrepreneurs. Over the years our member networks have developed a wide variety of services for small businesses of all sizes that are customized to meet the needs of regional businesses throughout the nation.

How and Where SBDCs work

SBDCs operate out of host institutions, primarily colleges and universities, and they operate (with some exceptions) statewide. California and Texas are the exceptions having six and four regional networks respectively. The host institution manages the operations of its SBDC network through its centers and many of those are at other colleges, community colleges and chambers of commerce. Those host institutions and their partners contribute matching funds that exceed the federal funding. Federal funding for SBDCs is allocated based on population census figures with a minimum funding level for smaller states (VT, NH, SD, etc.)

Many SBDCs are based at the business schools of their respective colleges providing the ability to leverage the skills and knowledge of the professors and students with the practical experience of our advisers.

SBDCs provide services to small businesses at all stages of development. The mix of businesses usually varies depending on the region and their unique characteristics. A good rule of thumb is that we have a range of about a 60/40 mix of existing and nascent (start-up) entrepreneurs. Annually, these ratios vary due to economic conditions and external factors such as disasters or market conditions. About 45% of our clients are women, and roughly 10% of our clients are veterans. Every year we provide over one and a half million hours of counseling and training to over 500,000 small business owners and their employees.

The Effect of the Shutdown

Luckily, most SBDC services were able to carry on during the shutdown. We are fortunate that our host institutions and partners have the flexibility to support our efforts for a short period. That is not to say that there were no effects. A number of our networks were forced to suspend advisers and reduce their time and hours available to assist small business owners, our clients. Also, the timing of the shutdown was such that it will create problems for some of our networks going forward. However, it was our clients – the thousands of small businesses across the country that bore the brunt of the shutdown’s impact.

Government Contracting

SBDCs host 29 of the Nation’s 94 Procurement Technical Assistance Centers. With the advent of the shutdown we started fielding numerous calls and getting questions from our clients about the impact upon their businesses. In total there were over 41,000 small business contractors and there were roughly 2.3 billion dollars in small business contracts affected.

Small contractors are often the least informed and most affected by a shutdown. When an agency faces a shutdown, procedures go into place and notices are sent out, but honestly there are more questions than answers from a small business owner’s point of view. They’re told to stop work, unless told otherwise, but no one answers the big questions – “Will my contract come back? Will I be paid and when? What about my employees? A large contractor can shift employees to other work, disruptions can be sorted out and overhead absorbed to handle the lapses. For a small business, everyone is out of luck. The owner and the employees are hanging out there together, and very often key employees can be lost a better opportunity, particularly in the current competitive job market.

Here in DC, one of our clients employs 75 people and predominantly supports the FAA. As of January 16th, approximately 70% of their employees had been furloughed. They were working on task orders and calls would come in stopping work on the task orders. No fixed schedule or answers, just a call or email. In a shutdown the contracting officers and administrators are furloughed so only a few supervisory personnel are available to respond to questions. By the last week, 90% of their employees ended up furloughed. While there has been very little reporting on the impact to small contractors they are often affected far more, and they employ a lot of people. The DC firm’s contract is back for the moment but, they are uncertain what will occur come February 15th.

When a small business contractor gets furloughed there is no recouping of lost revenue, and their employees can't expect back pay. In addition, their hiring and marketing suffers. The contractor in question lost a new hire who balked at leaving his current job to work for a small firm. They weathered this shutdown, but they are uncertain what will happen if another occurs.

And it isn't just existing contracts. In South Carolina, an SBDC client was waiting for the finalization of their 8(a) certification. When the shutdown occurred, his certification was in limbo. Without that certification and letters of support from the local Department of Energy lab (closed) they couldn't go to an Air Force "pitch day" event, (DoD was still operating). He lost time and opportunities that he'll never get back.

Small Business Borrowers

When SBA shuts down 7(a) and 504 lending stops dead. Loans in the pipeline sit and small businesses are stuck, often in difficult positions.

In Lynchburg, VA a borrower was expecting an SBA loan approval. His restaurant operates in a building on a month to month lease. He had given up his long-term lease expecting to get his funding and move to a new permanent location. He waited with the fear that his landlord might evict him as soon as he found a long-term lessee. The shutdown resulted in missed payments, and construction delays.

Let me offer a larger example for you. Our center in Twin Falls, Idaho (like many SBDCs) works closely with the local 504 lender, a Certified Development Company (CDC). They had over 11 million dollars of CDC financing halted. That may not seem like much, but in Twin Falls that's a lot of money and a lot of hard work put on hold. Throughout the shutdown, lenders were accurately sharing with commercial customers that the SBA is shut down and to expect delays. That's discouraging to a small business at work on financing that can only be presented with an SBA guarantee. SBA has reopened but 504 loans have a longer approval process and the backlog is significant.

There was another \$800,000 in Twin Falls affected by the shutdown. A lender asked if they could provide funds to an SBA borrower to complete a remodel on their existing building. They did not ask to pay SBA off, but instead, to have a 1st lien position on their existing money and the new money (for the remodel) all of which requires SBA approval. Due to the shutdown that simple request couldn't be processed and the additional \$800,000 for the remodel was on hold for the small business.

Another client did not receive final approval on an SBA 504 during the shutdown. Due to the timing, the borrower made the decision to start construction and take the personal risk (\$1.5 million) until the SBA opened back up. Had the government been closed longer or the borrower did not have a direct relationship with the contractor, the construction would have been delayed creating problems for his growing business.

Until SBA opened back up, our Idaho clients couldn't do simple things like servicing actions on existing and new approved loans. So, lack of a name change held up the closing of an approved 504 loan, and life insurance was not able to be processed by a widow as her spouse was a business partner. On top of her grieving process, she was not able to collect on the policy until SBA serviced all the changes that are a part of the loss of a business partner.

Idaho is not alone. In rural North Carolina a loan for a child care center remains on hold for a decision from the SBA on the business's eligibility. The business needs 504 financing to purchase the building it leases, which will lower its monthly expenses and allow the business to build equity. The lender was ready to submit all the supporting documents during the shutdown but could not. After this first round of approvals, it will still need the SBA to approve the full loan package.

Depending on how quickly the SBA can move through the backlog, the business could lose its building since its purchase contract will expire and may not be extended. The business was also supposed to receive grant funding from the state to assist with the building's renovations, however, to qualify the business must own the building and spend the funds by February 2019. Since this will no longer be possible, the grant funding is no longer a possibility. Beyond this, due to the building contract expiration, the shutdown has risked the survival of the entire business.

In Illinois, Joliet Pattern, an 80-year-old advertising, design, and engineering company may have to close after getting caught in the government shutdown. In 2015, the company entered a rough patch and the owner Andy Wood worked hard to recruit new clients and in 2018 the company became profitable once again. However, their bank informed Wood he needed to relocate his business lending relationship before December 31, 2018 or Joliet Pattern would be fined \$10,000 monthly, an unmanageable amount for the recovering business.

A Certified Development Company in Valparaiso, IN was positioned to step in and the loan could be funded in time for Joliet Pattern to avoid its first fine. Unfortunately, the loan couldn't be funded by the closing date of December 27, 2018 due to the shutdown. They incurred a second \$10,000 fine on January 31 as SBA moved through its backlog. As of February 4, the SBA still had not decided. Joliet Pattern faces a third fine if it remains unapproved and may not survive.

SBDCs have a partnership with IFA, the International Franchising Association, to help deliver assistance to their members. A lot of SBDC clients are franchisees, it's an excellent business model but it is capital intensive. IFA informed us that, during the shutdown, roughly 12 million dollars a day, over 380 million dollars in total, in SBA backed franchise loans were delayed affecting over 500 businesses. That potential impact only grows if the shutdown were to return as we head into the spring.

SBA is working hard right now to catch up, but all this takes time. In the meanwhile, our small business clients are forced to try and find bridge loans and alternative financing. Hopefully, they'll come to us to work it out. Otherwise, desperation can lead to poor business choices.

Certifications and Inspections

As I mentioned above 8(a) certifications were suspended at SBA. Mentor-Protégé agreements weren't processed either. If you are a small business trying to get a mentor-protégé agreement approved so you can team with a large defense contractor, you were on hold. The defense contractor was still working but you couldn't.

As Port City will tell you ATF wasn't issuing label approvals. SBDCs are work with small businesses in the craft brewing, micro-distilling and food industries all around the country. Most of our clients dodged a bullet because they got their label approvals before the shutdown, but not everyone is that lucky. What do you do with a seasonal product that you can't get labelled in time for the season?

SBDCs have over 500 trained, certified export assistance counselors, and while they were still working with their clients, business was on hold at the Department of Commerce. The website **export.gov** was down. Our clients were lucky, we could provide some support but anyone looking for help on export regulations on their own was stymied or paying information that should've been free.

What are SBDCs doing now?

How are SBDCs helping with all of this - any way we can. Providing all the help we can to keep our clients in the black. Arranging alternate financing, helping sort out contracting issues, getting people's businesses back on track.

Here in DC one of our partners, Intuit, is co-sponsoring an event with the DC SBDC on Friday. We'll be bringing in advisers and hosting a meet and greet lunch at a local restaurant that's feeling the pinch from the lack of customers. That event is an opportunity to help those businesses cope with the disruption, and plan for potential future disruptions.

It's as much a morale boost as anything else and it's a good way to support our clients. Like SBDCs many of them are wondering what will happen come February 15th. SBDCs are doing what they can to make sure their operations aren't interrupted, and their clients will have help if they need it.

Our mission is to help small business get past this and prepare for the future. It's not pleasant and it's not easy. Small business owners are always affected negatively by uncertainty, and that is exactly what a shutdown causes.

Thank you for listening, I look forward to answering any of your questions.

Small Business Committee Hearing
"The Shutdown: Economic Impact on Small Businesses"
February 6, 2019

Troy Balderson Opening Remarks

Good morning. I want to begin by thanking Chairwoman Velázquez and Ranking Member Chabot for holding this hearing today.

It's important we carefully consider the impacts that the federal government's actions – or inactions – have on the average American.

In Ohio, we have a saying that our state is "the heart of it all." And much like this, small businesses are the heart of the American economy.

Unfortunately, even a partial government shutdown like the one we just experienced, can have a detrimental impact on Ohioans and their small businesses.

Today, we will have the opportunity to hear from some of those Americans who were most impacted, so that we can learn how best to protect our small businesses moving forward.

To that end, I have introduced the End Government Shutdowns Act, which will prevent small businesses from ever suffering again, due to an appropriations impasse. I thank the Ranking Member for his cosponsorship and support on this important piece of legislation.

Today, I plan to listen to these folks at the witness table, who have so graciously volunteered their time, so I may learn from their experiences. I hope my colleagues on both sides of this dais will join me in finding solutions for small businesses – the heart of our economy – and I invite my colleagues to cosponsor the End Government Shutdowns Act.

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

CHRISTEL SLAUGHTER, Ph.D., CHAIR
SMALL BUSINESS COUNCIL

TOM SULLIVAN, EXECUTIVE DIRECTOR
SMALL BUSINESS COUNCIL

February 5, 2019

The Honorable Nydia Velazquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

Re: February 6 Hearing entitled, “The Shutdown: Economic Impact on Small Businesses”

Dear Chairwoman Velazquez and Ranking Member Chabot:

I am writing to thank you for holding a hearing on how the recent government shutdown affected small businesses, and I ask that you consider this information in conjunction with the witnesses who will appear at tomorrow’s hearing.

I am Christel Slaughter, Ph.D., CEO of SSA Consultants based in Baton Rouge, Louisiana and the Chair of the U.S. Chamber of Commerce’s Small Business Council. Over 99% of private sector businesses in the United States are defined as small.¹ Similarly, the vast majority of Chamber member companies are small businesses and the Small Business Council works to ensure their views are considered as part of the Chamber’s policy-making process. We are pleased that one of our Small Business Council members, America’s Small Business Development Centers, will be part of tomorrow’s hearing.

The recent thirty-five day shutdown resulted in \$11 billion in lost growth in domestic product and 800,000 workers who were furloughed.² The Congressional Budget Office (CBO) estimates that the U.S. economy will not recover \$3 billion of that lost growth, but the numbers don’t even begin to tell the human story.

The U.S. Chamber of Commerce Foundation convened several small business owners on Friday morning, January 25th, to examine the toll of a government shutdown on their livelihoods.³ Jerry Brandon, owner of the Riverview Hotel, explained how suspended ferry service by the National Park Service essentially evaporated his customer pool overnight.⁴ Captain Jack Morris explained

¹ *Frequently Asked Questions*, Office of Advocacy, U.S. Small Business Administration (August 2018), viewable at: <https://www.sba.gov/sites/default/files/advocacy/Frequently-Asked-Questions-Small-Business-2018.pdf>.

² *The Effects of the Partial Shutdown Ending in January 2019*, Congressional Budget Office (January 2019), viewable at: <https://www.cbo.gov/system/files?file=2019-01/54937-PartialShutdownEffects.pdf>.

³ *Day 35: The Real Economic Impact of the Government Shutdown*, U.S. Chamber of Commerce Foundation (January 25, 2019), Webcast of the proceedings viewable at: <https://www.uschamberfoundation.org/slideshow/day-35-real-economic-impact-government-shutdown>.

⁴ *Fallout from the Shutdown*, Thomas J. Donohue, U.S. Chamber of Commerce (January 28, 2019), viewable at: <https://www.uschamber.com/series/above-the-fold/fallout-the-shutdown>.

how the shutdown prevented one of his vessels from fishing.⁵ Jason Sherman, owner of TapRM, explained how the government shutdown prevented him from opening up a new retail shop in Brooklyn and he estimated losses of nearly \$1,500 to \$2,000 a day.⁶

Earlier in the week, the Chamber partnered with the Professional Services Council to understand how the government shutdown impacted small business federal contractors. We found that more than 41,000 small businesses that service contracts for federal agencies risked losing \$2.3 billion worth of work.⁷

These narratives, along with thousands of additional examples, tell the story of how a government shutdown impacts main street small businesses and why the U.S. Chamber joined with 645 state and local chambers of commerce and national trade associations to urge the President and Congress to end the shutdown.⁸

While we are pleased that a bipartisan group of lawmakers helped end the shutdown, keeping government open is not something businesses large and small should have to worry about and we pledge our support to meet those businesses' expectations.

Thank you for your consideration and please do not hesitate to contact Tom Sullivan at the U.S. Chamber of Commerce if you have questions about the content of this letter.

Sincerely,



Christel Slaughter, PhD
CEO
SSA Consultants
Baton Rouge, Louisiana

⁵ "We Need to Fish" New Bedford fishermen tells toll of shutdown, Michael Bonner, SouthCoasttoday (January 25, 2019), viewable at: <https://www.southcoasttoday.com/news/20190125/we-need-to-fish-new-bedford-fishermen-tells-toll-of-shutdown>.

⁶ Small business beer distributor loses upward of \$2K/day over government shutdown, Henry Fernandez, Small Business, FoxBusiness (January 21, 2019), viewable at: <https://www.foxbusiness.com/small-business/small-business-beer-distributor-loses-upwards-to-2000-a-day-over-government-shutdown>.

⁷ Estimating the Potential Impact of the Federal Shutdown on Small Business Contractors, Contracting Data from DHS, NASA, State, Justice, Transportation, Agriculture, AID, Treasury, Commerce Interior, EPA, FDA, and HUD compiled by Paul Murphy, Senior Data Analyst, Bloomberg.gov (January 24, 2019), viewable at: <http://bit.ly/2WDeU1PSCShutdown>.

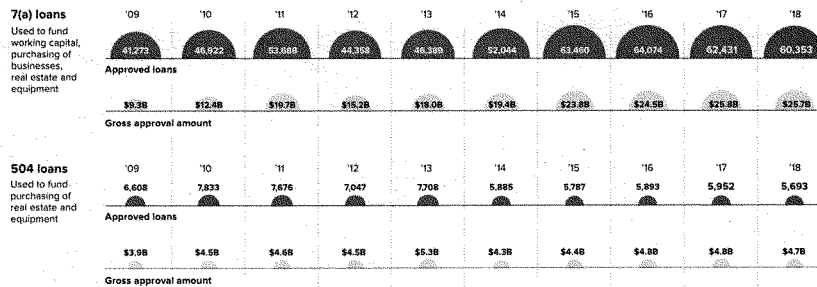
⁸ Coalition Letter – Ending the Shutdown and Reopening the Federal Government, (January 24, 2019), viewable at: <https://www.uschamber.com/letter/coalition-letter-ending-the-shutdown-and-reopening-the-federal-government-0>.

Feb. 7, 2019

Small Business Loan Approvals Before the Partial Shutdown

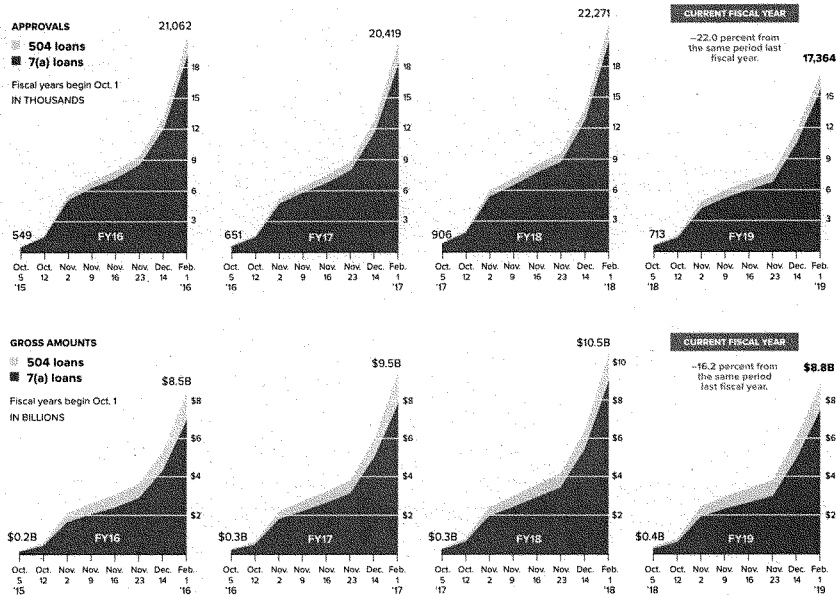
On Feb. 6, the House Small Business Committee held a hearing that focused on the partial government shutdown's economic effect on small businesses. During the 35-day closure, the Small Business Administration was shuttered and stopped guaranteeing small business loans that banks and lenders can provide to borrowers — the reduced risk to lenders results in SBA-backed loans offered at low annual interest rates to small business owners. Two types of financing the agency guarantees to pay a portion of if a borrower defaults are 7(a) and 504 loans. Compared with the same period during the previous fiscal year, total combined 7(a) and 504 approvals in fiscal 2019 are down 22 percent and the gross combined amount of both loan types is down 16 percent.

7(a) and 504 loan approvals historically, by fiscal year OCT 1 THROUGH SEPT 30



7(a) and 504 loan approvals and gross amounts, cumulative year-to-date

Before the partial government shutdown began on Dec. 22, 2018, weekly SBA-backed 7(a) and 504 loan approval numbers were already lower than in the first few months of previous fiscal years. After the agency reopened on Jan. 25, 2019, year-to-date data available for Feb. 1 show a continuation of the trend.



Note: Year-to-date information is derived solely from SBA records submitted by the agency's participant lenders engaged in making SBA loans. This information is collected by the lenders from SBA loan applicants who provide it on a voluntary basis. It is then forwarded by the lenders to SBA. Since the information is provided by the loan applicants on a voluntary basis, it is not necessarily inclusive of all SBA borrowers.

*For 7(a) loans greater than or equal to \$50,000 for more than or equal to a seven-year term with a variable interest rate pegged to WSJ Prime; for 504 loans with a 20-year term closed during that period.

Sources: Small Business Administration, nerdwallet.com

By Cristina Rivera, POLITICO Pro DataPoint



Estimated Impact of Shutdown on Franchising

RESEARCH

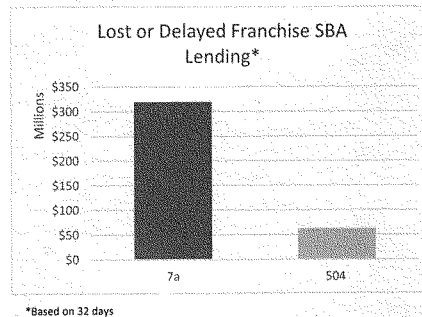
FRANdata was engaged by the IFA to estimate the potential impact of the shutdown on franchising, and how that impact has moved through the economy.

RESULTS

SBA Impact:

FRANdata estimates that through December and January each day the government is closed an estimated ~\$12 million in SBA lending to franchisees is lost or delayed. Over the 32 days of the shutdown so far, an estimated \$381 million has been lost or delayed, impacting over 500 business.

Also, historically, SBA lending for both the 7a and 504 programs increase through the spring and into the summer. If the shutdown moves into the spring months the daily impact increases adversely impacting more and more business each day. It also safe to assume that franchisees that applied for loans in December and January are more likely to give up.



Travel:

Based on estimates from US Travel franchised hotels are losing approximately \$25 million per day in revenues, which equates to over a \$1 billion lost revenue so far¹. Hotels face the same problem of increased demand as the shutdown moves into spring, which increase the daily negative impact of the shutdown.

METHODOLOGY

Using data made public by the SBA FRANdata calculated the average daily number of SBA loans and dollar amount for December and January for the 7a and 504 programs. Data covered from January 2013 to September 2018 as the most recent quarter data has not been released. Historically, franchisee lending represents approximately 10% of all SBA loans for both programs and 16% of the dollars lent. These were applied to the daily averages to estimate the impact on lending.

CONSIDERATIONS

So far it has been difficult to measure the impact of the postponed loans on the development of new locations and meeting cashflow needs. It is also difficult to measure how this flows through to employment and payroll. Due to the Department on Commerce being shutdown new jobs data has not been released. It is safe to assume that the longer this goes the more wide-felt the impact will be. The shutdown can only be seen as a negative drag on the economy and the longer it goes that more pronounced that drag will be.

Research by: David Swift

¹ US Travel: [Partial Government Shutdown Costs U.S. Travel Economy More Than \\$100M Daily](#), by David Huether





February 4, 2019

The Honorable Nydia Velázquez
Chairwoman, Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Steve Chabot
Ranking Member, Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Chairwoman Velázquez Ranking Member Chabot:

On behalf of the International Franchise Association (IFA), the world's oldest and largest organization representing franchising worldwide, I write to share our views on the February 6, 2019, hearing entitled "*The Shutdown: Economic Impact on Small Businesses*." This hearing is of critical importance to the franchise sector, which is comprised of approximately 733,000 locally owned small businesses across the country.

IFA appreciates your strong support of the Small Business Administration's (SBA) 7(a) loan program, which is the primary source of funding many franchisees rely on for site development, property leasing, and more. Many franchisors additionally benefit from the ability of their franchisees and prospective franchisees to seek SBA-backed financing for franchise development and system expansion.

This program was shuttered during the 35 days of the shutdown, and according to the attached FranData report, we estimate that \$12 million in 7(a) lending to small business franchisees was lost or delayed, impacting over 500 businesses. Franchisees, who had begun the arduous process of loan approval months prior, were forced to seek alternative financing options, delay-purchase payments or rents, or worse, give up on the process altogether during the shutdown.

These problems in lending also extended from the public sector to the private sector. Many banks across the country have dedicated staff who handle the SBA 7(a) loan process as part of the Preferred Lenders Program (PLP). However, since no new loans were processed by the SBA during the shutdown, banks participating in PLP were considering whether to implement staff layoffs.

While the government has reopened, we encourage you to work closely with the SBA on its plan to efficiently process the 7(a) backlog, and request information regarding the resources dedicated to the Agency's 7(a) Loan Guaranty Processing Center. We urge you to ensure those resources, in addition to the E-Tran system, are able to process the backlog in an expeditious manner. Put simply, small businesses are the backbone of the U.S. economy, creating two-thirds of all net new jobs. Their ability to expand should not be taken hostage by future government shutdowns.

Thank you again for holding this important hearing and considering our views. We are pleased to serve as a resource to you on this issue and others of importance to the franchise sector.

Sincerely,

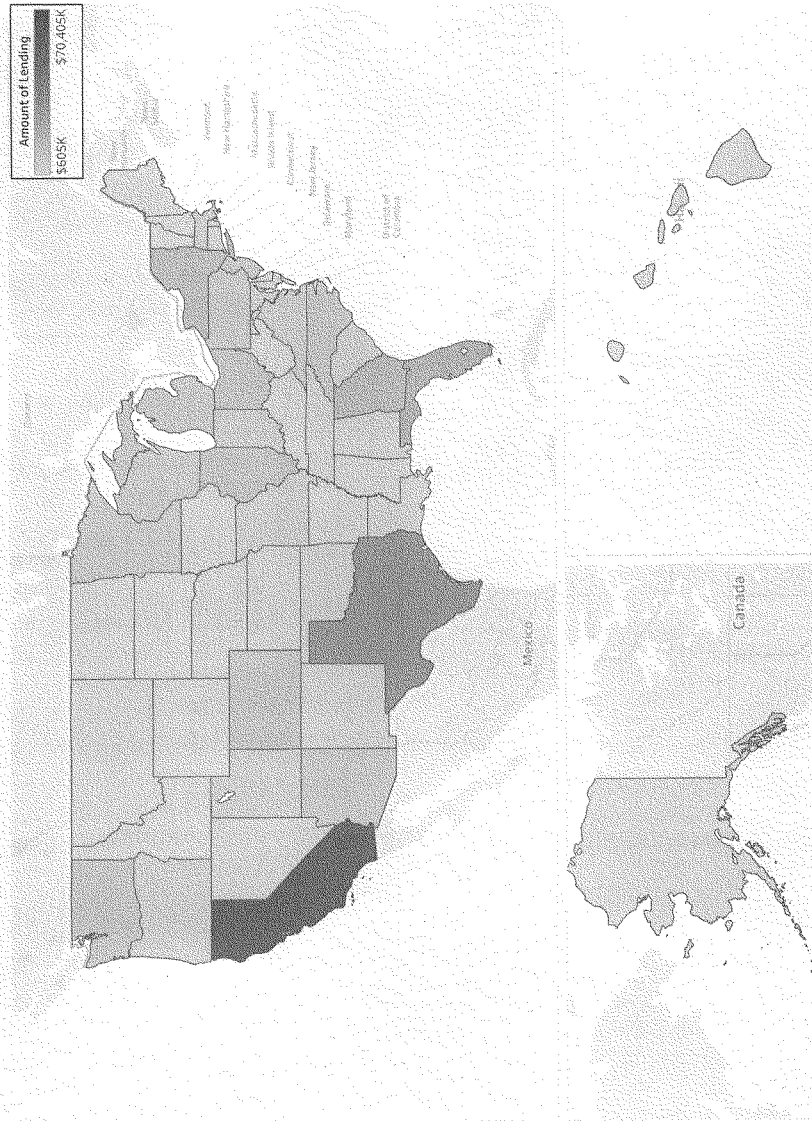
Matt Haller
Senior Vice President of Government Relations & Public Affairs
International Franchise Association

cc: Members of the House Committee on Small Business

Count of SBA Loans Impacted by State (32 Day Shutdown)



Amount of SBA Lending Impacted by State (32 Day Shutdown)



Impact of shutdown on SBA lending by state (32 days shutdown)
 measured in loans not made and amount not lent based on historic averages for
 December and January.

State	Count of Loans	Amount	State	Count of Loans	Amount
CA	73	\$70,404,979	NV	5	\$3,548,562
TX	40	\$35,576,920	OK	5	\$3,825,121
NY	32	\$17,453,405	AL	4	\$3,219,521
OH	30	\$13,548,963	HI	4	\$1,008,986
FL	27	\$23,496,497	IA	4	\$2,329,416
MA	21	\$6,882,612	KS	4	\$2,873,193
MI	21	\$10,492,929	ME	4	\$1,255,034
IL	18	\$13,921,616	NE	4	\$2,318,053
PA	17	\$10,323,440	SC	4	\$4,269,170
MN	16	\$8,405,912	TN	4	\$3,960,135
GA	15	\$18,712,010	AR	3	\$2,605,823
NJ	15	\$11,378,560	LA	3	\$2,858,879
WI	15	\$9,409,487	MS	3	\$2,538,122
CO	14	\$9,958,195	MT	3	\$1,379,791
WA	14	\$10,684,074	NM	3	\$1,702,172
IN	12	\$8,190,214	RI	3	\$1,340,310
AZ	11	\$9,763,244	DE	2	\$1,222,336
UT	11	\$6,700,027	ND	2	\$883,871
MO	10	\$6,658,554	SD	2	\$955,931
NC	10	\$9,568,666	VT	2	\$604,790
VA	8	\$6,483,701	AK	1	\$923,563
MD	7	\$4,414,645	DC	1	\$803,522
OR	7	\$5,625,028	WY	1	\$747,380
CT	5	\$3,141,714			
ID	5	\$2,502,437			
KY	5	\$2,537,992			
NH	5	\$1,402,892			



January 22, 2019

The Honorable Nydia Velázquez
Chairwoman
Committee on Small Business
United States House of Representatives
2361 Rayburn House Office Building
Washington, DC 20515

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
United States House of Representatives
2361 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Velázquez and Ranking Member Chabot:

On behalf of the National Association of Government Guaranteed Lenders (NAGGL), I write to urge Congress and the Administration to put an end to the government shutdown and the continued damage to the country's small business economy. NAGGL is the national trade association that represents over 800 private-sector lenders and partners that make 7(a) loans through the Small Business Administration's (SBA) flagship loan program to tens of thousands of small businesses every year.

First, NAGGL would like to thank you both for your ongoing support and confidence in the 7(a) loan program. You have each personally fought for the continued success of 7(a) lending at critical junctures for the program. NAGGL recognizes that you are both unreservedly supportive of a full-year authorization for Fiscal Year (FY) 2019 for the 7(a) loan program, and we fully understand that the current dispute between Congress and the Administration is wholly unrelated to the 7(a) loan program. However, now that our members have experienced the government shutdown for the past month and in our role as the voice for the most active financial institutions that provide loans under the 7(a) program, NAGGL believes that it is important that we share with the Committee the alarming and detrimental effects that halting the 7(a) loan program has had – and will continue to have – on the national economy.

Most importantly, small business borrowers are suffering a devastating impact as a result of the shuttering of 7(a) lending during the shutdown. On an annualized basis and using the total gross 7(a) lending volume of \$25.4 billion in FY 2018, NAGGL estimates that small business borrowers generally received on average \$500 million in access to capital per week through the 7(a) program. In addition, at an estimated one job created or retained per \$35,000 in 7(a) lending, approximately 14,000 jobs were created or retained per week last FY. With every indication that 7(a) lending would continue at a similar pace over the course of FY 2019 and understanding that lending volume is cyclical, often making it difficult to generalize over an extended period, these estimates serve as good points of reference for the shutdown's impact on small businesses.

The broader effects on small businesses not able to receive 7(a) loans during the shutdown are immeasurable, but critical to note. A small business that had been counting on a 7(a) loan for its working capital needs that did not receive the loan prior to the shutdown may now have trouble making payroll. Mortgage and rent payments become more difficult to make. We know that growth and expansion plans for thousands of small businesses will soon halt, resulting in decreased tax revenue for cities, states and

the country. Everyone can agree that \$500 million per week in lost access to capital and 14,000 jobs per week not created or retained are devastating results, but it is the ripple effect felt by local communities supported by small businesses now frozen in time that is difficult to quantify and should not be overlooked.

However, the shutdown is particularly devastating to prospective 7(a) borrowers because at the core foundation of 7(a) lending is the requirement that a loan can only be approved if the borrower cannot obtain credit elsewhere. Small business loans are often deemed the riskiest by lenders, making this zero subsidy loan program the lifeline for creditworthy small businesses that would not otherwise find reasonable financing to enable the business to grow or survive.

It is also critical to note the impact of the government shutdown on the country's more than 1,800 private-sector financial institutions and partners that participate in the 7(a) loan program. Participating 7(a) lenders have gone from processing over \$2 billion of 7(a) loans per month to a complete stop. As a result, many of our member banks are starting to consider ways to reduce expenses, including the potential need to furlough bank employees within their SBA department, with discussions of potential lay-offs down the road.

In addition, 7(a) lending experiences an impact different from many other programs affected by the government shutdown. Much of the national conversation about furloughed federal employees and many government programs paints a similarly dismal picture, but post-shutdown there is guaranteed back pay for federal employees and, in many cases, full-year funding will resume for programs. However, the 7(a) loan program is demand driven, with lenders serving the present need for borrowers with authorization that is otherwise not automatically utilized. Therefore, 7(a) lenders are losing the opportunity to service and provide capital to small business borrowers that, in many instances, will never be recaptured should the potential borrower be forced to abandon plans to start or grow a small business. In addition, there is no back pay for the small business employee that did not see payroll during the shutdown, or for the bank's employee furloughed during the shutdown. Unlike most examples of programs or government employees affected by the shutdown, the 7(a) program has no reset button when the shutdown ends. The bottom line is economic harm has been – and is being – done to small business and lenders, and thousands of jobs have already been lost.

NAGGL and its private-sector lending members do not measure success merely by the number of loans made, but rather in the undeniable impact these loans have on America's collective Main Street. Make no mistake that this government shutdown is weakening Main Street, with the possibility that the lack of timely access to capital may represent a fatal blow to some small businesses. I stand at the ready to continue serving as a resource to both of you and the Committee as we all hope to see a swift end to this shutdown and to put America's small businesses back to work through a program we all agree is worth protecting — the SBA 7(a) loan program.

Sincerely,



Anthony R. Wilkinson
President & CEO

National Association of Government Guaranteed Lenders (NAGGL)



**Before the Committee on Small Business
United States House of Representatives**

Hearing on
The Shutdown: Economic Impact on Small Businesses
February 6, 2019

Statement of the National Council of Nonprofits

On behalf of the National Council of Nonprofits, the largest network of charitable nonprofits in the United States, we submit this statement to inform Committee Members:

1. How the recent federal government shutdown inflicted harm on charitable nonprofit organizations, the people they serve, and the overall economy – citing examples from across the country; and
2. The firm belief and expectation of nonprofits nationwide that *government shutdowns are completely unacceptable and should never be an option at any level of government.*

We believe it is appropriate for the Committee to consider the shutdown's impact on nonprofits because charitable organizations are predominantly small employers. Ninety-two percent of America's nonprofits have budgets under \$1 million; 88 percent have budgets of less than \$500,000 for their work. Collectively, nonprofits employ more than 12 million people – about 10 percent of the workforce (and even higher in some states, such as New York, where nonprofits employ almost 17 percent of the state's private-sector workforce).

In this statement, we address the unacceptable human and financial costs the shutdown imposed on individuals, smaller organizations, and the economy. We share the nonprofit perspective and provide insights from the real-world experiences of organizations that stepped up to address the many problems created by the shutdown.

Here's an initial sampling of the impact and comments from around the country:

- **Nonprofits serving families:** "The middle-school-aged girls we work with bring a lot of their family stressors to the program with them and we anticipate needing to guide them through processing this situation." (Maine)
- **Nonprofits providing food assistance:** "Our clients – SNAP recipients – are confused and anxious. We are hearing from more people who need help accessing food, including furloughed federal employees. Mitigating the impact of the shutdown is our top priority, but as a nonprofit, the attention the shutdown demands is consuming significant resources and staff time across our entire organization." (Massachusetts)
- **Nonprofit domestic violence shelters:** "Our staff members already work for very little to accomplish important social services for domestic and sexual violence survivors and we are at the point where we will have to tell survivors we can't help them and tell our staff to go home and that we can't pay them until the government approves a budget. This is completely unacceptable for victims of violence and our community." (Utah)

- **Strain on nonprofit resources:** "Call volume is increasing daily from people seeking assistance because other providers have been adversely affected and are unable to help. Impact on our resources at this point is moving from moderate to high." (Maine)
- **Hardships on nonprofits:** "The unexpected -- and troubling -- message is that the shutdown affected nonprofits and communities in surprisingly large ways. From food banks and housing groups to education and arts organizations, people are reporting hardships across the state." (California)
- **Lasting Impact of the Shutdown:** "The current agreement ... is only a temporary fix until February 15. These stops and starts are preventing nonprofits from delivering critical services in their communities. In some cases, the disruption is undoing years of work and planning that were to ensure consistent, quality services over the long term. While it is expected that federal employees will receive back pay once the government reopens, it is still unknown whether laid off employees of contractors and grantees, including many nonprofit employees, will receive back pay. This will be completely destabilizing if these payments are not restored." (Hawai'i)

The Unacceptable Impact on Individuals, Smaller Organizations, and the Economy

During the federal government shutdown, charitable organizations played a major role in working to alleviate some of the consequences in communities throughout the United States. Nonprofits saw first-hand that the number of people being harmed by the federal government shutdown far exceeded the frequently cited number of 800,000 federal employees who were not being paid. Their family members – hundreds of thousands of additional innocent people – also were being hurt. The adverse impacts extended to the hundreds of thousands of employees of federal contractors not being paid – a number again expanded by family members swept into this avoidable disaster. Nonprofit employees and their family members were among those being hurt, as the shutdown also meant that the federal government was not paying on many of the contracts and grant agreements made with nonprofits to provide various services.

The federal government shutdown inflicted unnecessary injury on the people of this country and on the economy. That's not just our opinion. All three key segments of our nation's economy – public, private, and nonprofit – sent letters last month telling the President and congressional leaders: end the shutdown immediately, because it's hurting people, it's hurting the economy, and it's hurting individual businesses and nonprofits. See these letters from the [National Governors Association](#), the [U.S. Chamber of Commerce](#), and the [National Council of Nonprofits](#).

The Nonprofit Perspective on the Shutdown

Charitable nonprofits are on the front lines of our nation's most pressing problems, whether caring for returning soldiers, educating children, rebuilding cities, training the workforce, nursing the sick, supporting older residents, inspiring innovation through the arts, housing homeless people, mentoring our youth, protecting natural resources, nurturing our faith and spirituality, promoting diversity, inclusion, and equity, and many more ways of touching the lives of Americans in every community, every day. These organizations are all committed to their missions of improving lives and did not care about who won or lost political points in this senseless confrontation.

The federal government shutdown imposed significant burdens for which there is no reasonable justification. In addition to costing the economy more than \$11 billion, the shutdown imposed unfunded costs on nonprofits, resulting in direct harm and significant collateral damage to the work of charitable nonprofits across the country.

Direct Harm to Nonprofits

Charitable nonprofits – as well as the people and communities they serve – suffered direct harm from the shutdown. For instance, furloughed federal employees, kept from their jobs, could not issue grants or contracts to nonprofits and could not make payments to reimburse nonprofits for work nonprofits had performed on behalf of the government. More people in need turned to nonprofits seeking more assistance than usual because they couldn't wait for policymakers to agree. As the shutdown dragged on, some of these and other organizations were forced to take out lines of credit or layoff staff and reduce or eliminate certain services, costs in financial and human terms that will never be recovered even after government operations ultimately return to normal.

Nonprofits as Collateral Damage

Equally harmful are the indirect, yet still significant financial and human costs of the shutdown that charitable organizations experienced. Furloughed federal employees who previously were regular contributors to the Combined Federal Campaign began showing up at local food banks seeking boxes of food to tide them over until reason prevailed in Washington. They joined the already long lines of individuals seeking assistance. Nonprofits providing various forms of human services were called upon to provide support for new populations of persons in need – federal employees and contractors out of work without paychecks through no fault of their own. Most tragically, among those programs affected were domestic violence shelters that were not receiving payments the federal government agreed in writing to pay, which in turn forced many of these vital shelters to lay off staff (e.g., as reported in [New York](#), [North Carolina](#), and [Ohio](#)). The dollars and hours of service diverted from nonprofit missions to address this politician-inflicted crisis will never be recouped and the unnecessary human toll will not be erased in too many instances.

Charitable nonprofit organizations are integrally involved in the economies of their communities, their states, and the country. Nonprofits employ more than 12 million individuals nationally, which is more employees than the construction, finance, and insurance industries combined. The [Government Accountability Office](#) has documented that governments hire and “rely on nonprofit organizations as key partners in implementing programs and providing services to the public, such as health care, human services and housing-related services.” Yet there are tangible limits. The federal government cannot shirk its responsibilities and offload unfunded and unanticipated services onto nonprofits for which the organizations simply do not have existing capacity to handle.

To be clear, it is not the business of the charitable sector of the economy to overload their vital missions by filling the gaps and protecting Americans from their own government. When governments deny spending, they don't cut human need by an equal amount – and indeed, as this shutdown showed in dramatic fashion, the shutdown compounded the human need and pain. Charitable nonprofits cannot reasonably be expected to serve as the shutdown shock absorbers; the stress of this breakdown in federal leadership is too great to absorb.

Insights from the Real World

Charitable nonprofits experienced or witnessed first-hand the significant problems flowing from the 35-day federal government shutdown. Initially, leaders of state associations of nonprofits, like other people throughout the country, hoped that reason would prevail quickly. As days turned into weeks, however, those leaders began identifying the heroic efforts of charitable organizations to protect the public from the closure of government and to identify the adverse consequences on individuals, nonprofits, and communities. Because the harm still continues after the temporary 21-day reprieve started, many nonprofit leaders are continuing to gather additional examples. We share the stories of numerous organizations, as reported by their state associations of nonprofits.

California

The [California Association of Nonprofits](#) (CalNonprofits), reporting on its survey results, wrote, "The unexpected – and troubling – message is that the shutdown affected nonprofits and communities in surprisingly large ways. From food banks and housing groups to education and arts organizations, people are reporting hardships across the state."

The state association of nonprofits shared quotes from nonprofits experiencing challenges because government officials were not at their jobs. One wrote, "It is impossible to learn anything about . . . applications for infrastructure, fire disaster response, and economic development . . . from the U.S. Department of Commerce." The shutdown had gone on so long, one nonprofit that was forced to consider layoffs, confided, "Our federal grant funds will be held for 2019 until the shutdown resolves. This could result in staff furloughs until the cash flow resumes."

Among other findings, CalNonprofits discovered that the shutdown created problems for the clients and constituents of nonprofits. Organizations responding to the survey expressed concerns about federal housing subsidies for low-income renters, food stamps for struggling families, and other public benefits that were delayed. Nonprofits serving communities with high numbers of federal employees were hit especially hard.

CalNonprofits provided this observation that should resonate with every Member of the Small Business Committee: "What happens in Washington affects the whole country, and California nonprofits and communities are among those facing more and more urgent difficulties."

Florida

The [Florida Nonprofit Alliance](#) described how the shutdown imposed unfunded costs on nonprofits. Challenges arose because numerous federal offices were not functioning, creating challenges that nonprofits, as entities dedicated to addressing problems in communities, were called upon to address. One area was housing assistance, in which the Department of Housing and Urban Development warned landlords that its ability to make rental assistance payments was in doubt and that HUD might be unable to renew contracts with local entities that provide housing. Nonprofits addressed serious concerns raised by the prospects of the shutdown affecting Supplemental Nutritional Assistance Payments (SNAP), continued funding for domestic violence shelters, and food inspections.

The state association of nonprofits also found that many Native American tribes saw funds for healthcare and other vital services dry up. The federal government is legally obligated to support services like medical clinics, food pantries, and educational programs, but the shutdown stopped many of these payments. This forced some services to be reduced or eliminated altogether.

Hawai'i

The [Hawai'i Alliance of Nonprofit Organizations](#) (HANO) reported on January 25, the day the shutdown temporarily ended, that three out of every four nonprofits responding to the state association's survey said they had been directly impacted by the federal government shutdown. The stories of the harmful consequences were as troubling as the statistic. A nonprofit stated, "We were going to close on [the purchase of] a new facility on Dec. 28 using a USDA community facility loan. Because government shut down, we are now in limbo. We have extended our purchase agreement but are waiting for the USDA to cut the check. If the sellers are not willing to extend the date, we could be out of the deal that we have been working on with USDA for over 2 years."

Another nonprofit, working with the Hawai'i Island Community Development Corporation on an affordable housing project, pointed out the hardship caused by the shutdown on individual clients:

"The participating families are waiting to have their loan applications processed by Rural Development, which unfortunately is not able to do so because of the government shutdown. The families are waiting."

These and other comments by adversely affected nonprofits led Lisa Maruyama, President and CEO of HANO, to express the concerns of many:

"The current agreement ... is only a temporary fix until February 15. These stops and starts are preventing nonprofits from delivering critical services in their communities. In some cases, the disruption is undoing years of work and planning that were to ensure consistent, quality services over the long term. While it is expected that federal employees will receive back pay once the government reopens, it is still unknown whether laid off employees of contractors and grantees, including many nonprofit employees, will receive back pay. This will be completely destabilizing if these payments are not restored."

Maine

The Maine Association of Nonprofits (MANP) found from survey results that charitable nonprofits had serious concerns about the impact of the shutdown on daily nonprofit operations and the organizations' ability to serve Maine residents. Two-thirds (66%) of respondents reported that they had either a moderate or high level of impact from the federal shutdown. One respondent wrote: "We have seen moderate increase in the numbers of people seeking food and diapers through our pantry; many of them are furloughed or working without pay." Another wrote: "Call volume is increasing daily from people seeking assistance because other providers have been adversely affected and are unable to help. Impact on our resources at this point is moving from moderate to high."

The adverse affects of the shutdown clearly went farther than the federal employees who were furloughed or forced to work without pay. A nonprofit reported: "The middle-school-aged girls we work with bring a lot of their family stressors to the program with them and we anticipate needing to guide them through processing this situation," demonstrating also that the pain of the shutdown goes far beyond the economic and will have lingering effects.

"Despite challenges imposed on Maine nonprofits by the shutdown, many are doing what they normally do when there's a community need, serving more with fewer resources. It's what we do," said Jennifer Hutchins, MANP's Executive Director in the organization's report on its survey shortly before the temporary reopening was announced. Hutchins continued, "But Maine's nonprofits cannot replace the government, and should not be called on to do so. It's time this shutdown ends, so that Mainers can get back to work and our charitable nonprofits can turn from this politician-created crisis to address the ongoing needs of our residents."

Massachusetts

A survey by the Massachusetts Nonprofit Network found disruptions in funding streams, including delays in existing grant programs, uncertainty around entitlement funding, little to no federal technical assistance on grant and program administration, and lapses in federal approvals needed to carry out local projects and activities, among many other things. The report quotes Erin McAleer, President of Boston-based nonprofit Project Bread, who said:

"Our clients — SNAP recipients — are confused and anxious. We are hearing from more people who need help accessing food, including furloughed federal employees. Mitigating the impact of the shutdown is our top priority, but as a nonprofit, the attention the shutdown demands is consuming significant resources and staff time across our entire organization."

Providers' Council in Massachusetts wrote their congressional delegation to report on the many negative impacts of the shutdown on human services providers, and shared one poignant quote from a front-line nonprofit professional that resonates with many:

"All it takes is one missed payment, voucher or rental subsidy to put them at extreme risk. It is imperative that those who are the most frail and vulnerable are not held hostage to a system that is meant to be a safety net for them. This is a most cruel and unusual way to force policy change."

New Jersey

Among the many nonprofits responding to a request for information by the Center for Non-Profits in New Jersey, one food pantry executive expressed the spirit of the community that nonprofits naturally embrace. Reporting that the organization had received its first direct request for assistance from a furloughed federal employee, the survey responder wrote, "She is struggling to pay her rent and bills. Of course, we will be providing her food right away and seeing if there are other ways to help navigate this situation."

A social service provider responded to the survey: "We anticipate calls within 30 days for food, [as] food stamps cover 99% of our homeless and extremely low-income clients. Our county government funding through HUD will be affected, if HUD is closed, rental assistance payments will be delayed, and we will not be able to help as many families facing eviction." This same organization reported hearing of a backlog of responses by federal offices to inquiries from county government. "This covers community development block grants, so cities will be affected, both social service agencies and road and building projects. This is already starting."

Summarizing the tragic consequences of the shutdown, Linda Czipo, President and CEO of the Center, stated succinctly: "Lives and livelihoods are on the line."

Utah

A survey by the Utah Nonprofits Association showed that nonprofits and their constituents experienced a wide range of hardships as a result of the government shutdown. "The uncertainty and being in limbo is hard," replied one survey respondent. Some nonprofit respondents reported that they had seen delays in their own organizations' work and new projects due to lack of funding; some were concerned about their clients not receiving benefits, and others were concerned about their clients' ability to pay for things like daily medications.

As in other states, the most poignant comments from respondents were about the impact of the shutdown on people who have experienced trauma. "Our staff members already work for very little to accomplish important social services for domestic and sexual violence survivors and we are at the point where we will have to tell survivors we can't help them and tell our staff to go home and that we can't pay them until the government approves a budget. This is completely unacceptable for victims of violence and our community."

The state association of nonprofits highlighted the fact that many nonprofits made their services available for free or at reduced cost to individuals affected by the government shutdown. One noted that they had opened a food bank "to serve furloughed government employees by providing them with a cart full of groceries twice a month, all they need is to provide proof of employment." Similar stories occurred at airports across the country as nonprofits delivered food to TSA agents forced to work without pay.

Concluding Comments

Recognizing the extra burdens the shutdown was imposing on nonprofits, the National Council of Nonprofits published a special [Thank You to Nonprofits](#) message hours before the temporary reprieve from the shutdown was announced. The letter marveled at how charitable nonprofits “stepped forward, yet again, to help innocent people who are being hurt by circumstances beyond their control.” It observed that, while this is normal for nonprofits when “helping others cope with everyday struggles and natural disasters,” this time nonprofits volunteered to help their fellow Americans during “an unnatural disaster” caused by politicians. The letter concluded with these words of praise to the nonprofit community that we trust will resonate with the Members of the House Small Business Committee:

“We hope politicians will learn from your positive example of putting people first.
We’re proud to serve with you. For the public good. Every day.”

Respectfully submitted,



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News Release

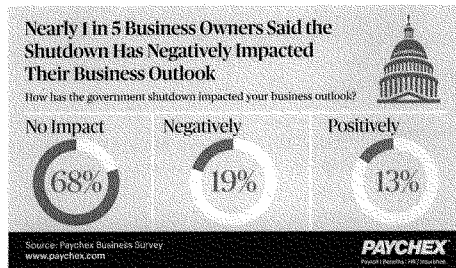
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For Immediate Release

Paychex Poll Reveals the Government Shutdown Negatively Impacted Business Outlook for Nearly One in Five Business Owners

Rochester, N.Y. (January 28, 2019) – Congress and President Trump reached a temporary deal on Friday, January 25, to end the month-long government shutdown, but the country faces lingering uncertainty about the economic implications of this extended budgetary standoff. **Paychex, Inc.**, a leading provider of integrated human capital management solutions for payroll, benefits, human resources, and insurance services, surveyed 300 business owners with 100 employees or less from January 22-24, asking how the shutdown impacted their overall business outlook, as well as if and how their business was affected by the government shutdown.



How did the shutdown impact business sentiment?

According to the research, 19 percent of business owners said the shutdown had a negative impact on their business outlook. Despite the length of the shutdown, the future outlook for the majority (68 percent) of business owners was unaffected. Meanwhile, 13 percent reported that the shutdown had a positive impact on their business outlook.

How many businesses were impacted by the shutdown?

The Paychex survey found that 21 percent of business owners were directly impacted by the shutdown. The remaining 79 percent were not impacted. Of those experiencing the effects, the decrease in federal worker customers had the largest impact (41 percent), followed by:

- Payment delay from government contractors whose services their businesses rely upon (33 percent)
- Inability to apply for a Small Business Administration (SBA) loan (29 percent)
- Awaiting approval on an SBA loan application submitted before the shutdown (24 percent)
- Suspension of data services regularly provided by the federal government (22 percent)
- Inability to access E-Verify (17 percent)

"We're encouraged from an economic standpoint to see that the government shutdown did not impede business sentiment for many, and most of the owners we surveyed were able to conduct business as usual," said Martin Mucci, Paychex president and CEO. "Though many businesses weren't affected, we know that some are still facing significant challenges due to the shutdown. Our advice is to stay informed by talking to financial advisors and other trusted business partners about how to manage cash flow disruptions and preparing for a second shutdown if the temporary resolution runs out on February 15 without a permanent agreement in place."

For Drew Boling, owner of Custom Vehicle Upfitters, which sells and installs emergency vehicle equipment to government agencies, the shutdown impacted his bottom line.

"We have clients that have received their products and services but could not pay for them during the shutdown," said Boling. "We were also not getting any new business from affected agencies. In addition, we are in the process of buying a new building, and part of the purchase will be funded through an SBA loan. We have been told that this loan could take twice as long as normal because of the shutdown."

About the Survey

Paychex polled 300 randomly selected business owners with 100 employees or less. The survey was administered by Bredin, a third-party research firm, between January 22, 2019 and January 24, 2019 and yielded a +/- 5.66% margin of error.

About Paychex

Paychex, Inc. (NASDAQ: PAYX) is a leading provider of integrated human capital management solutions for payroll, benefits, human resources, and insurance services. By combining its innovative software-as-a-service technology and mobility platform with dedicated, personal service, Paychex empowers small- and medium-sized business owners to focus on the growth and management of their business. Backed by more than 45 years of industry expertise, Paychex serves over 650,000 payroll clients as of May 31, 2018, across more than 100 locations in the U.S. and Europe, and pays one out of every 12 American private sector employees. Learn more about Paychex by visiting www.paychex.com, and stay connected on [Twitter](#) and [LinkedIn](#).

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